APRIL 1980

Nation's Business

the business advocate magazine

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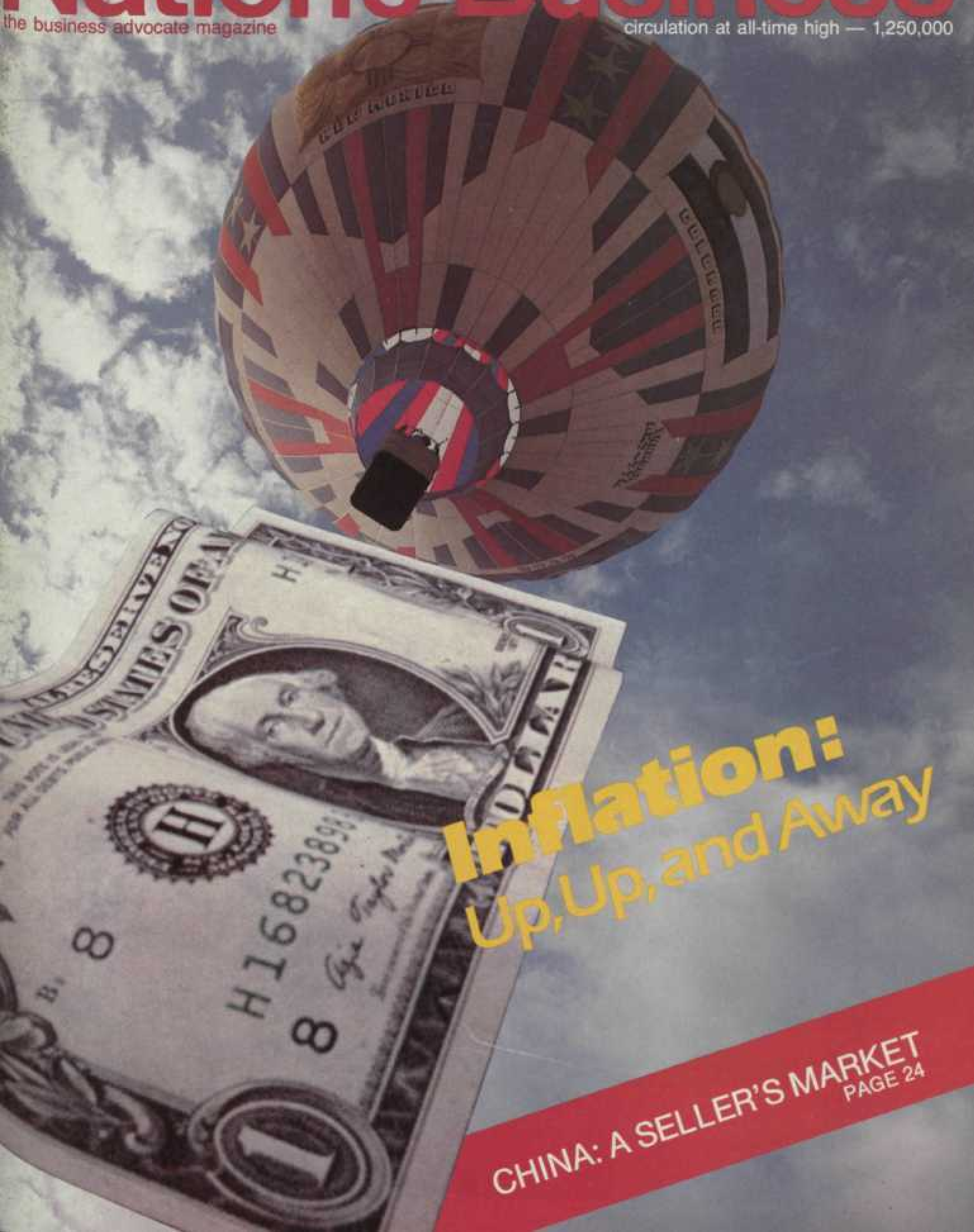

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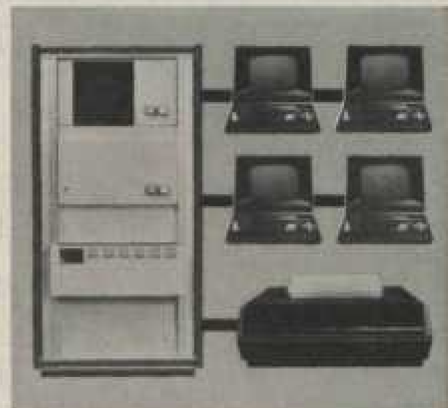

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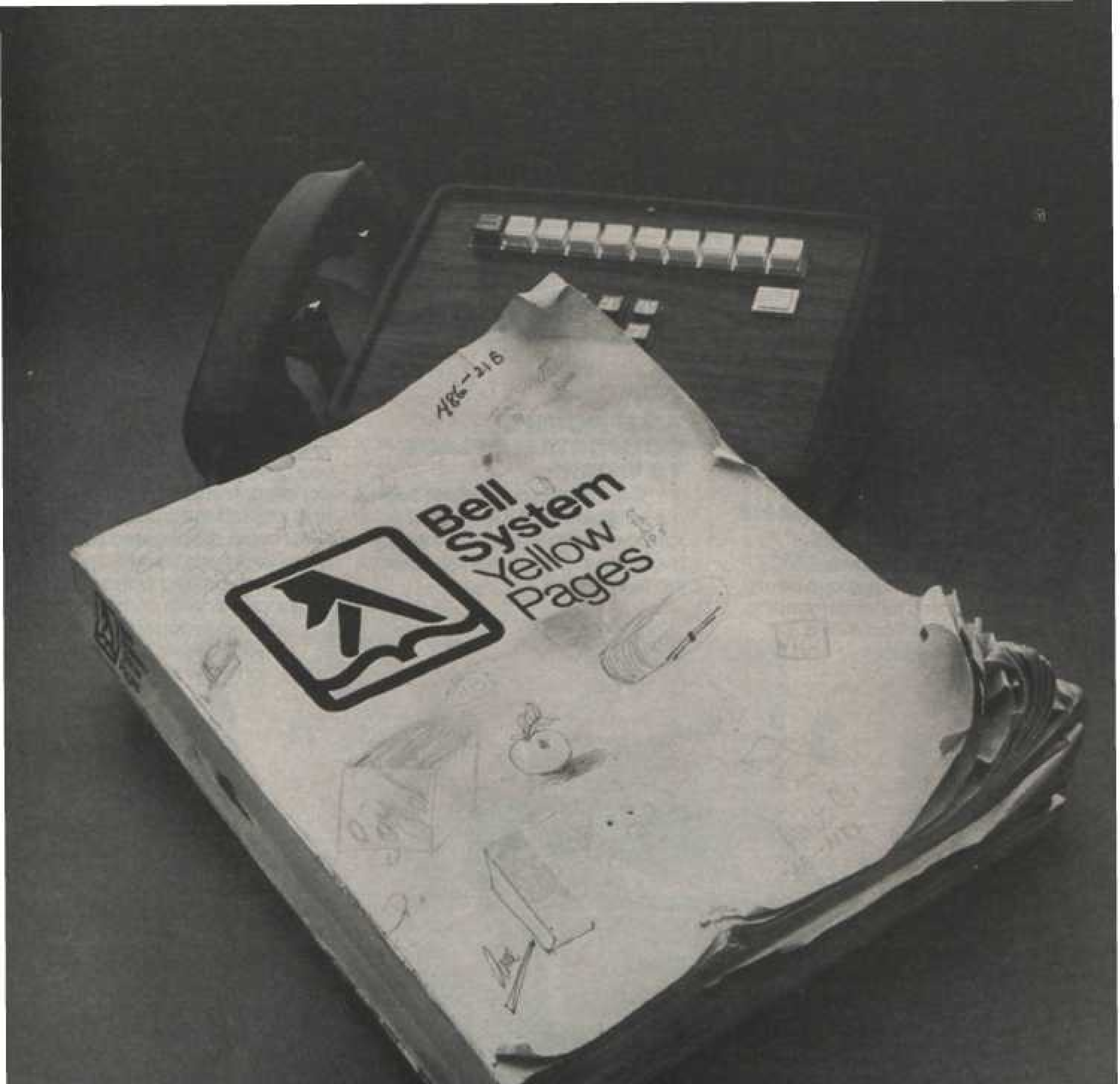

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WASHINGTON LETTER

▶ DISILLUSIONMENT IS LIKELY to follow initial burst of enthusiasm for Carter administration's budget cuts.

Reason? It takes years for fiscal and monetary policies to bring down high rate of inflation, experts say. Seeds of current inflation were sown by past budget deficits.

Situation is tailor-made for demagogues running in upcoming election. Because of time lag, economists point out, cuts in federal spending may appear to fail, increasing pressure for wage-price controls.

Conversely, controls--if applied--would appear to work well at first. Inevitable problems would not begin to show up until well after election.

▶ BACK-DOOR PRICE CONTROLS through credit control? It's a current rumor here in Washington.

White House has been looking for ways to impose mandatory economic controls without going to Congress for new legislation, sources say.

Credit Control Act of 1969 confers very broad credit-control power on President and Federal Reserve Board.

Could officials cut off all credit to firm that violates price guidelines? Maybe, but it's a long shot.

One problem: Act says President may authorize Fed to impose credit restrictions. After that, it's up to the Fed.

▶ TAXPAYERS WOULD HAVE SAVED almost $3 billion in 1977 if the federal government had gone to private enterprise for goods and services it now produces for itself. And America's small businesses could gain $2 billion a year in new business in the process.

That's conclusion of a report prepared for Small Business Administration by a national task group of small business representatives.

Evasion of official federal preference for private sources of supply is easy and widespread, group found.

Specifically criticized: Postal Service's plan for local express mail delivery. It would compete with small couriers and operate at big loss in first year, says report.

▶ U. S. FIRMS MAY LOSE their technological lead to foreign competitors located here, according to Anthony J. Marolda, vice president of corporate development services at Arthur D. Little.

American companies have been cutting back on their long-range research and development activities, he notes. But Japanese and European firms, some of which are acquiring affiliates here, "are more interested in having the companies they buy do research and apply the results in product and process improvements that might pay off ten or 15 years down the road. . . ."

It won't be easy to catch up, he warns, once those companies start pulling ahead technologically.

▶ MORE ACTIVE SUPPORT OF UNION organizing is planned by AFL-CIO.

Federation, under new President Lane Kirkland, aims at reducing steady decline of union share of work force.

New initiative includes coordination of affiliate unions' recruiting drives and information exchange on organizing methods.

▶ EVEN UNION MEMBERS OPPOSE STRIKES by public employees, according to poll of state residents conducted by Pennsylvania State University.

Pennsylvania, which authorized public

employee strikes in 1970, now leads nation in number of strikes annually.

Fifty-six percent of adults polled said police, fire, teaching, and nursing personnel should not be allowed to strike. Union members agreed, 49-47 percent.

Poll also disclosed that 72 percent of those interviewed think unions strike too often.

Even so, the outlook is for more strikes and growing public anger at them, says Gerald Glyde, assistant professor of labor studies at the university. Reason, he says, is inflation and rebellious mood of taxpayers.

▶ IS FOREIGN OWNERSHIP of American banks becoming a threat to United States?

Not in opinion of Federal Reserve Board.

Board is keeping an eye on takeovers, says member J. Charles Partee, and "has found no evidence that foreign ownership has produced harmful consequences for our banking system or for bank customers."

Mr. Partee told House subcommittee on financial institutions it would be a mistake to restrict ability of U. S. banks to strengthen their capital base through sale of stock to foreigners.

▶ THE END OF THE FIXED-RATE MORTGAGE and other major changes in home finance are foreseen by Oakley Hunter, chairman of the board and president of the Federal National Mortgage Association.

Such changes are essential, he says, if the home finance system is to meet needs for new housing expected in 1980s.

He sees variable rate mortgages in widespread use by end of decade, with money for them coming increasingly from new sources such as insurance companies and pension funds.

By 1990, he says, "a national securities market in conventional mortgages could be one of housing's financial mainstays."

▶ TAX RELIEF FOR SAVERS will help housing, predicts Jack Carlson, executive vice president and chief economist of National Association of Realtors.

He says the planned tax exclusion of interest income--$200 for single taxpayers and $400 for joint returns--will increase pool of savings available for mortgage lending and lower mortgage rates by one third of a percentage point.

▶ HOUSING INDUSTRY, already suffering from record mortgage interest rates, may soon face a lumber supply crisis. So says National Association of Home Builders.

If government does not act to prevent shortage of softwood lumber, cost of wood used in a house will go from about $9,000 today to more than $36,000 by 1990.

Association officers put the blame on four factors:

- Reluctance of U. S. Forest Service to comply with presidential directive calling for increased production from national forests.
- Environmentalist objections to increased harvesting on public lands.
- Underproduction on some private land, especially in the South.
- Export incentives.

▶ A PAYMENT ERROR is made in one of every four claims for federal Supplemental Security Income, according to study published by American Enterprise Institute.

Error rate is same as for states, when they ran welfare programs replaced by federal program. One argument for federal takeover was superior administrative efficiency, says author of study, Paul L. Grimaldi, associate professor of economics at Seton Hall University.

An estimated $1.2 billion in overpayments were made to SSI recipients between July 1974 and June 1976, Prof. Grimaldi says.

Actual error rate may be even larger, he says, because government does not count errors of less than $5 a month, or mistakes in determining eligibility for disability payments.

▶ GROWTH IS DESIRABLE for businesses of all sizes, U. S. Chamber is telling House groups studying various proposals to limit corporate size or mergers.

Chamber points out that 200 largest nonfinancial corporations controlled 41.1 percent of nonfinancial assets in 1958, and 39.5 percent in 1975, refuting theory of a trend toward concentration.

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FEBRUARY SOUND OFF RESPONSE ON PAGE 40.

Will Rationing Reduce Gasoline Consumption?

THE GASOLINE rationing issue refuses to be shelved or dismissed. But is it the most effective and equitable way to reduce gasoline consumption and prevent severe fuel shortages?

A majority of families say they would prefer coupon rationing to other measures such as weekend closings of gas stations or prohibition of driving on certain days, according to the Conference Board, a nonprofit research group.

Prodded by the Energy Department and Congress, the President has developed a rationing plan that would be triggered if gasoline stocks declined to at least 20 percent below demand. Coupons would be distributed to owners of registered vehicles, based on historic statewide usage patterns, and trading of coupons would be allowed.

Despite the opinion of American families, opponents contend that the government would be unable to make rationing work. Among the skeptics is Energy Secretary Charles W. Duncan, Jr., who claims rationing could cost up to $2 billion and require a bureaucracy of 50,000 people to administer.

Coupon allocation involves difficult choices, says Morgan O. Reynolds, associate professor of economics at Texas A & M University. "Who determines need when all individuals and groups want more?" he asks. "Separately, our personal incentive would be to wrangle as much as we could from the rationing authorities."

It might be six months or more before a rationing bureaucracy could be in place. If consumption must be reduced quickly, a gasoline tax would be more effective, some energy experts think, with the proceeds rebated to lower-income groups or used to finance conservation.

However, Sen. Dale Bumpers (D.-Ark.) points out that stiff gas taxes eliminate the freedom of low-income people to drive while those in higher income brackets may have to make no adjustments at all.

"Gas rationing is the fairest, most effective and least inflationary alternative for reducing our imports and beginning the transition to an energy-efficient transportation system," he says.

Rationing ensures that all Americans will have a supply of gasoline to apportion to vacations, commuting, and shopping as they see fit, Sen. Bumpers adds.

Boosters also point out that since rationing wouldn't involve new taxes, consumption would be restrained without a large inflationary impact.

What do you think? Will rationing reduce gasoline consumption? □

PLEASE CLIP THIS FORM FOR YOUR REPLY

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BY JAMES J. KILPATRICK

Human Freedom and Dr. Privitera

AS GEORGE MASON reminded us a long time ago, it is an excellent idea to recur frequently to fundamental principles. Let us consider such principles as they apply to James R. Privitera, M. D. He won't mind. He's in jail.

The strange case of Dr. Privitera offers us, in microcosm, a stunning picture of the wasting disease that afflicts our free society as a whole. A political philosopher could not ask for a better case study of the differences that divide liberals and conservatives. In this criminal proceeding, the power of the state triumphed over the rights of the people, and ancient principles of law and government were ground underfoot.

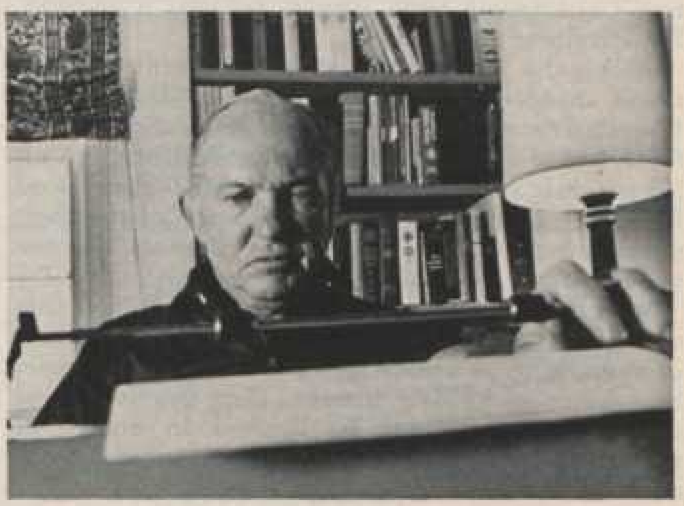
Why is Dr. Privitera in jail? He is serving a six months' sentence, imposed in January, for this crime against the sovereign State of California: He prescribed the drug amygdalin for patients dying of cancer. He thus violated the California Health and Safety Code. More specifically, he violated the state's administrative regulation that flatly prohibits the "prescription, administration, sale, or other distribution of amygdalin to any patient who has or believes he has cancer." The law and the regulation are perfectly clear.

FOR THOSE who may have come lately to this whole controversy, amygdalin is a substance found widely in nature. It may be obtained most readily from apricot pits. It is chemically related to the cyanamides, but in small amounts it is less toxic than aspirin. Compounded in drug form, it is called laetrile. As a health food, amygdalin has been available for many years. As a therapeutic agent in the treatment of cancer, it is banned not only by California but also by the U. S. Food and Drug Administration. Laetrile cannot be lawfully imported. The Supreme Court has upheld the FDA's authority in this regard.

The FDA takes the position, as a matter of law, that the makers of laetrile have failed to provide scientifically acceptable evidence that the drug is effective in the treatment of cancer. This is quite true. In an effort to quiet the storm, the FDA recently authorized two years of tests under auspices of the National Cancer Institute. The tests may prove something one way or another. Meanwhile, although 21 states through their legislatures have specifically sanctioned the use of laetrile within their borders, the FDA's ban makes laetrile legally unavailable anywhere.

I am myself indifferent to the outcome of the tests. They will not reach the fundamental principles that are at stake in the case of Dr. Privitera. These principles are at least as old as Jefferson's restatement of them in the Declaration of Independence: The inalienable rights of man include the rights to life, liberty, and the pursuit of happiness. The principles are embedded in the First and Ninth Amendments to the Constitution. We are talking about the right of privacy, the right of free men and women to make their own decisions about their own bodies.

The California statutes, largely paralleling the federal law, were adopted with the very best intentions. They are intended to protect sick people from quacks. Medical history, as the Supreme Court has noted, is filled with accounts of worthless nostrums sold by charlatans to gullible people.



On the scientifically acceptable evidence to date, laetrile is such a nostrum. True, there is an increasing body of testimonial evidence that in some cases laetrile combined with a high-vitamin diet tends to reduce the pain of terminal cancer; in some reported cases, patients are convinced that laetrile halted their cancer altogether. But testimonial evidence is brushed aside by scientists as empirically worthless. In their view, it is a double-blind test or nothing.

CALIFORNIA LAW does something more besides banning laetrile. The law's effect is to limit cancer therapy to those forms of treatment approved by the state—chemotherapy, radiation, and surgery. For all practical purposes, these are the only alternatives lawfully available to a cancer patient in California. If a medical practitioner departs from state-sanctioned medicine, as Dr. Privitera discovered, he may wind up in prison.

As far as quackery is concerned, Dr. Privitera's

qualifications speak for themselves. He was graduated in 1962 with a B. S. degree in biology and chemistry from Canisius College in Buffalo, N. Y. He did graduate study in biochemistry at the University of Buffalo. In 1967 he received his M. D. degree from Creighton University School of Medicine in Omaha, Neb. He interned at Providence Hospital in Seattle, Wash., and took his residency at Presbyterian Hospital in San Francisco. In 1969 he took a fellowship in allergy at the Scripps Clinic in La Jolla, Calif., and in 1970 he began his private practice in Covina, specializing in allergy and nutrition. Along the way, he developed a lively interest in the properties of amygdalin. He became a public advocate of the drug, and he greatly irritated the state's medical establishment. It is not disputed that he prescribed laetrile in violation of the law of California. What is disputed is whether the law of California violates the Constitution.

THE PRIVITERA CONVICTION went hopefully up the appellate ladder and came down again unsuccessfully. In March, 1979, the Supreme Court of California, dividing 5-2, upheld the law. The U. S. Supreme Court refused to review the matter. California's Gov. Brown refused a pardon. Dr. Privitera went to jail.

Along the judicial way, the defendant encountered Judge Robert Staniforth of the state's Fourth District Court of Appeals. Judge Staniforth wrote a superlative opinion holding the California law unconstitutional. Chief Justice Rose Elizabeth Bird of the state Supreme Court subsequently adopted it as her own dissent. Let me quote from it.

"Concerning the efficacy of amygdalin, this court does not enter that fray. The effectiveness of amygdalin as a cure for cancer is not the issue. The issue is human liberty. Can the informed cancer-ridden patient be limited in choice of treatment received from a state-licensed physician to state-sanctioned alternatives?"

DR. PRIVITERA'S CHALLENGE, said Judge Staniforth, rests upon two claimed rights—the right of privacy of the patient to choose or to reject his own treatment, orthodox or unorthodox, and on the derivative independent right of a licensed medical doctor to prescribe procedures without unreasonable governmental restrictions.

"The right to control one's own body is not restricted to the wise; it includes the foolish refusal of medical treatment. [In a Jehovah's Witness case], the right to choose what may be a suicidal medical course has been upheld. For analogy we look to the very heart of this right of choice of medical procedures, the right to beget or not to beget a child. [In *Roe v. Wade*, 1973], the Supreme Court held that a mother's constitutional right of privacy was broad enough to encompass her decision whether to terminate her pregnancy before the end of the first trimester."

In the court's view, the informed patient has a right to choose, and a licensed medical doctor has a separate right to prescribe. "To require a doctor to use only orthodox, state-sanctioned methods of treatment under threat of criminal penalty for variance is to invite a repetition in California of the Soviet experience with Lysenkoism [that heredity can be changed by environment]... It raises the specter of medical stagnation at best, statism and paternalistic Big Brother at worst."

JUDGE STANIFORTH could find no compelling state interest to justify the ban on amygdalin: "It is generally conceded to be a harmless drug." In the specific case of Dr. Privitera, the evidence at trial had shown that his patients were fully informed of the alternatives lawfully available to them. "Many were unwilling to accept the orthodox alternatives. These are not wide-eyed country bumpkins seeking to be conned.

"We need cite only one witness as a basis for a composite picture: The patient is a senior citizen with diagnosed cancer of the prostate; treatment recommended—prostate removal and castration, with female hormone treatment for the rest of his life. The victim simply refused to accept these alternatives and sought amygdalin treatment instead.

"The 19 witnesses testifying for Dr. Privitera conveyed a felt imminency of death. One senses a mortal fear of both the disease and the orthodox alternatives... To these cancer victims the denial of medical treatment, albeit unorthodox, must surely take on a Kafkaesque, nightmare quality. No demonstrated public danger, no compelling interest of the state, warrants an Orwellian intrusion into the most private of zones of privacy.

"The state has in the name of protecting the cancer victim criminalized the doctor who is willing to innovate, to try an unapproved drug with the consent of the patient. From the terminal patient's viewpoint, a new depth of inhumanity is reached by a broad sweep of this law so interpreted."

Judge Staniforth's views did not prevail on appeal. Dr. Privitera's conviction was affirmed.

What puzzles me in all this, among other things, is the general quiescence of the medical profession. Ordinarily, doctors protest vociferously against intrusions by government upon the private practice of medicine. But the effect of the California law is to let government itself prescribe the norms and standards of treatment. A side effect, and an ugly one at that, is to protect the incomes of orthodox practitioners whose patients might otherwise turn to competing but unorthodox physicians. By writing its own expert opinions into binding criminal law, the medical establishment demonstrates an unbecoming arrogance.

A LITTLE HUMILITY IS IN ORDER—a little concession that not all human beings are identical, that human beings respond in different ways to different things. For the state to decree its own sanctioned therapy is to intrude grossly upon fundamental rights. I am not concerned with laetrile as such; it may indeed be worthless. But, by God, I am concerned with human freedom. □

How to Mastermind a Meeting

Good speakers avoid monotony
and distractions
while maintaining control

By B. Y. Auger

MEETING LEADERS are not born, they are made; at least, this is true of good meeting leaders. And of meeting participants.

The moment of truth begins at the podium. This can be an effective tool for making points and creating a "now hear this" atmosphere, or it can be the speaker's biggest menace.

The chances are that you may be guilty of some of the following podium practices, which distract members of the audience and detract from your personal dignity:

Grippers. They look as if they were standing on the side of a mountain. The only thing apparently keeping them from tumbling over is the podium, onto which they are hanging for dear life. If they are nervous, they may gain sympathy, but not much else. If you are a gripper, remember that the more relaxed you can appear the more relaxed and receptive your audience will be. People will feel you have command over your subject matter, and you will win their confidence.

The Weakling

Grippers should remember that even the best performers often come onstage feeling a little nervous. There are innumerable tales of great actors who confess with humility to this common condition.

One technique is to forget that you are talking to a roomful of people. Instead, concentrate on speaking to one person at a time, even looking individuals in the eye. Pretend that you are having a person-to-person talk with each individual in the room.

Musicians. They have the habit of nervously rattling coins or keys in their pockets or twirling beads or chains, thereby distracting the audience, particularly those up front. In truth, any mannerism is distracting. If this is one of your faults, there is a simple cure. Remove the coins, keys, beads, and chains before you get up in front of the group.

Weaklings. They relax by leaning on the podium. You get the feeling they would fall if you pulled the podium away from them. Crouched over, they cramp their chest cavities and cannot speak out with strength and vigor. The audience tends to impute weakness to their ideas and messages. Maybe this type of speaker needs to get a little more sleep the night before, but chances are that he or she would improve if simply made conscious of this fault.

The Bon Voyageur

Orators. Today they are seldom able to manipulate captive audiences as did the great Mark Antony. There are times and places for spellbinding speeches. You make a brief one in the football locker room before you lead the players to victory. You make a speech for posterity if you address Congress in a time of national crisis. But

the occasion for old-fashioned, full-throated oratory is not the business meeting. Orators soon become boring; they tend to make their listeners feel they are talking down to them.

Pacers. They remind the audience of a caged lion—always on the move, realizing there is no escape. Pacers must be well-prepared, or at least well-versed in their subject matter, because they never get close enough to the podium to follow their notes. They may actually overlook important points they had planned to make. The audience tends to focus on their acrobatics instead of their words.

Bon voyageurs. They look like they are waving goodbye to their mothers-in-law. They just can't wave fast enough or hard enough. Limited gesturing can lend emphasis when a speaker stands before a fairly large group; overuse is a distraction.

Readers. They have their noses buried in their notes. They may resort to the written word because they are ill-prepared or because they do not have enough confidence in themselves.

The listeners—if they can hear the words directed toward the sheets of paper—are likely to feel that the reader didn't consider his or her presentation important enough to be better prepared. Why should the audience think it important enough to listen?

A little from each

Although the types of characters just described have faults, there is a happy combination that takes the best from each of them—except the musicians and the readers.

Good speakers vary their presentations. They avoid monotony. Because they know their subject, they convince the audience to believe in it. To command attention, they borrow something from the grippers and the orators for special emphasis or an occasional gesture from the bon voyageurs.

Change of pace

If you want to stimulate participation and free discussion, you may create a relaxed atmosphere by occasionally leaning on the podium in a chummy way or even sitting on a chair on the same level as the group. You can put the audience at ease by sitting on the edge of the table.

For an occasional change of pace or to break the spell of an audience whose eyes are riveted on one spot, you can cross from one side of the room to the other and return to the podium.

The point is, you can use the best of podium practices in good taste. It is only the extreme that becomes offensive.

These podium pointers also apply to the conventional business meeting around a conference table.

Other sins to avoid

The meeting leader often commits other sins that detract from his or her personal effectiveness and from the meeting goals.

1. Do you hog the meeting, not giving anyone else a chance to contribute an independent thought? If you do, the net result of your efforts will be resentment.

In the eyes of the group members,

The Reader

you become the autocrat. In seeming not to care about the views of others, you detract from their dignity. How could they not be resentful?

2. Do you come to a meeting ill-prepared, presenting topics that someone has put together for you? Do you shuffle through supporting papers, nervously seeking catchwords and clues to the subject of the discussion you're supposed to lead?

If so, you will be as transparent as the professor who comes to a lecture unprepared. The meeting will ramble while you fumble. You will waste the time of all those present, and they will resent this waste.

3. Do you let the meeting run away by itself as though it were a train with-

out a motorman? Do you patiently wait while each person exhausts his remarks before you recognize someone else? Do you wind up the meeting an hour late without apparent accomplishment? Or do you wind up on time with even less done?

4. Do you resent questions or comments from the participants that seem to challenge something you said? Do you convey the impression that unless your word is taken as law, there will be retaliations and recriminations? If you do, you are destroying initiative.

5. Do you feel that you must tell funny stories and off-color jokes? A funny story will occasionally relieve tensions and help put across a key point, but too much of a good thing can deprive a meeting of its tone of serious business.

6. Do you chastise members of the group? Do you pick on specific individuals and subject them to harassment or ridicule? Even if you seem to be doing it in jest, your behavior will be resented. Save your criticisms for a private conference.

7. Do you permit interruptions? Every time you take a mid-conference telephone call, you are using up the time of all the people present.

The same principle applies when letters, memoranda, or other documents are brought in to you during the course of a meeting for your perusal while others cool their heels. If you're running a meeting, specify for your secretary the emergency conditions that warrant interruption.

Another mark of a good meeting leader is recognition of problem participants and effective handling of them.

There are three problem characters to be on the alert for—the show-stealers, the disrupters, and the blackouts.

Show-stealers are usually talkative types who want to make a big impression, but have little to contribute or get started and then do not know how to stop.

The talker who has little to say is a relatively simple problem. Spot him or her as a nuisance and learn to bypass the individual in recognizing others who have something worthwhile to contribute. Occasionally, he or she can be omitted from a meeting. There's also no substitute for a good, private, supervisory discussion.

A somewhat more delicate problem is presented by the person who has a great deal to contribute, but tends to do so at the expense of others' opportunities. In the meeting itself, the leader will feel that he or she cannot afford to stifle worthwhile discussion, but must strive to cut the show-stealer short once he or she has made his or her key point.

The rude ones

The disrupters consist of rude persons, hecklers, and recalcitrants.

Rude participants may be talking on the side or doing independent paperwork. The best approach probably is to address specific questions to them for comment.

The several varieties of heckler may have deep-seated psychological problems. Their complaints may pertain to the office or to situations at home. The meeting leader should avoid open chastisement.

He or she should pick up and restate objections or criticisms raised by the heckler and turn these over to the group itself for disposal. If the heckler continues to be disruptive, chances are the group will dispose of him or her. The heckler will be regarded collectively as a threat.

Recalcitrants are somewhat different. These people are rigidly committed to a particular viewpoint. The leader can raise questions bringing in other sides of the problem. He or she can also pass the ball to other members of the group for them to press contrasting viewpoints. Beyond these efforts, the meeting can do little more than express its own consensus.

The blackouts are those who do not participate. They may have contributions to make, but for reasons unknown, sometimes even to themselves, they are reluctant to express themselves. They perhaps consider it safer to keep their own counsel, or they may feel insecure about expressing their thoughts. Sometimes they may actually have nothing to say.

The Orator

The meeting leader should try to draw these people into discussion when he or she thinks they have worthwhile contributions to make. Merely drawing them into discussion for the sake of participation can embarrass them. The leader should be alert to logical opportunities to seek the comments or opinions of these noncommunicative types.

Remember that the business meeting is a vital communications tool that all successful companies have assiduously developed. It is at the meeting that the company game plan is outlined, the signals made clear, roles and assignments clearly defined, problems discovered and overcome.

The meeting leader must develop himself or herself into the expert communicator whose skills are so necessary to success and growth. □

This article is adapted from How to Run Better Business Meetings *by B. Y. Auger, published by Minnesota Mining and Manufacturing Co. Mr. Auger is vice president of 3M's visual products division.*

The Disrupter

LETTERS TO THE EDITOR

Dispatches From the Small Business Front

Thank you for a provocative and probing description of the five main problem areas affecting small business enterprises. ["Small Business: Beset, Bothered, and Bewildered by Five Big Problems," Feb.]

Our company, like many others in this country, recognizes the severe impact that government regulation entails. But rather than buckle under, we have organized a program with which to fight back. We are a small industrial distributor, so we're willing to try harder.

I was disturbed by what I felt was a feeling of helplessness, the psychological depression and frustration outlined in the section on regulation. I just want you to know that many of us are willing to turn that around by taking our views on legislation and trends affecting free enterprise to our elected representatives.

So don't lose heart, and thanks for a good read.

CLAUDIA P. CHAMPION
Administrative Assistant
York Machinery & Supply Co.
York, Pa.

VAT? No thank you

We need a value-added tax like we need another Vietnam. The only sure thing is as you stated: "One thing is certain, taxpayers must ultimately foot the bill."

There is no way VAT will be an incentive to business to control costs, especially with the percentage added on to just about every item sold by a retailer, wholesaler, or manufacturer. In fact, in this inflationary atmosphere, a law to add ten percent to prices may be an inducement to add on even more.

The section on taxes in the small business article says the VAT will be easy to administer.

Anyone who has had the displeasure of collecting sales taxes knows the difficulties of the current laws. VAT would require two ledgers, one for buying to know what can be deducted and the other for selling.

VAT would also be inflationary for many businesses, large and small, because many hours would have to be spent accounting for the tax.

Lastly, the only logical answer to the continuing need for revenue for all governments is to have less government, not additional taxes. If expenditures of all government agencies were frozen at the current level, in a short time the percentage of the gross national product going to finance the cost of government would shrink to more workable levels.

JERRY BRUNETTE
DesigNation, Inc.
Mundelein, Ill.

Every home a school

Perhaps we should return to the concept of the one-room school—the home. ["Doomsday for Public Education?" Feb.] With video technology, most of the educational process could be communicated via the family TV set. Keep a few centers open for sports, exceptional education, music, and the arts.

Money and energy savings would be major. Back up this program with a curfew and promote the theme that good jobs require good education, and we might stop the spread of the Chicago school syndrome. Of course, there is always the chance that the federal government will require racial balance in our homes.

LLOYD HORNBOSTEL
The Parker Pen Co.
Janesville, Wis.

Unlearned educators

James J. Kilpatrick's essay gives an accurate, concise view of one of the major problems in our educational system—the education of teachers.

As a former high school English teacher for six years, who took educa-

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tion courses at three different schools, I concur with Mr. Kilpatrick that mountebanks and ignoramuses run the entire system of educating our educators.

There was a movement in Indiana while I was finishing work on my master's degree in English to make a master's degree in education the only acceptable degree for continued certification.

I did not take one education course that benefited me as much as my poorest English course. I hope Mr. Kilpatrick continues his crusade. And I hope someone heeds his warning.

DANIEL J. O'MALIA
Vice President
O'Malia Food Markets, Inc.
Noblesville, Ind.

The four Rs

Churches founded this country's first schools. Then the state took over, making education more expensive and less effective. How can schools and curriculums instituted by politicians, managed by bureaucrats, and manned by hit-the-bricks union members compete with dedicated teachers who integrate the four Rs in education?

My father was a Lutheran teacher for 47 years. He had 40 to 45 kids in a one-room school. His graduates always landed in the top third of their high school classes.

Of course, teaching 40 to 45 children is not full-time work, so he was also choir master, organist, and janitor. What a contrast with today's unionized teachers.

Our present system of free public schools and expensive private schools is not constitutional. First of all, public education is far from free, and private schools operate, for the most part, on much smaller budgets.

The disintegration of public education is sad, but maybe it is a good thing. Maybe it will hasten the day when education is again placed in the hands of the church and private groups. Public educators, fearful of private education, try to scare the public by telling them that private schools do not need to live up to state standards. Thank God for that. Look at what state standards have done for public education.

W. M. BUESCHER
Pigeon Forge, Tenn.

Frustrating fact

When Mr. Kilpatrick designates the courts as having made it all but impossible to punish unruly students, he publicizes a fact that frustrates school board members and educators. The courts have given students their rights, but have not insisted that students accept their responsibilities. And as courts have permitted teachers more advantages than are given to workers in both private and government employment, so have the teachers turned their profession from one of public service to one of greedy unionism.

MANUEL GRECO
Atlantic Highlands, N. J.

By judicial fiat

Mr. Kilpatrick's column on trouble in the public schools errs in only one way—his order of priority of causes should be reversed. The basic cause of public school deterioration is the unwarranted exercise of the will of the federal judiciary—unelected and lifetenured—to force racial balance in the classroom—without regard to any other factor.

HUGH M. PATTERSON
Baker & Botts
Houston, Texas

Three things wrong

I have just read the article on restructuring the tax system. ["It's Time for Some Tax Relief," Feb.] You favor tax cuts across the board, but mainly you point out the need for tax reductions for corporations to encourage capital formation.

There are three things wrong with this:

First, corporate taxes are not so high that the corporations are not making more profit than ever. The net percentage has steadily risen.

Second, taxes on corporations merely reduce their expansion capacities for a while.

The taxes on most people actually take away from the essentials of food, clothing, and shelter. Even before taxes, most people can barely keep their heads above water.

Third, when individual taxes are reduced, the money gets into the investment channels just as quickly as if corporate taxes were cut.

I am not sure that businesses and corporations should be taxed at all, but I do know that every step we take should bring better equality and democracy.

It's a matter of morality, which is the final, total, and everlasting solution to all problems, economic and otherwise.

L. W. BANKSTON
Retired Teacher and Civil Servant
Decatur, Ala.

THE ECONOMY

Commerce Department Rates Growth Prospects

Between now and 1984, at least 106 of 164 leading U. S. manufacturing industries will grow at a faster rate than they did in 1980, according to the Commerce Department.

During the current year, however, 52 of the industries will drop below 1979 real growth levels, and only 26 are expected to achieve real growth of five percent or more.

Of the 15 largest industries, the aircraft industry has the brightest prospects in 1980. Real growth is expected to exceed 13 percent; shipments were about $28 billion last year. On the other hand, the motor vehicle industry is likely to experience a 10.6 percent decline in real growth for the year. Shipments last year totaled about $82 billion.

According to the department, the ten manufacturing industries that have the best prospects for real growth in 1980 include aircraft engines and parts; metal cutting and machine tools; industrial heating equipment; process control instruments; aircraft; metal forming machine tools; engineering, laboratory, scientific, and research instruments; analytical and optical instruments; truck and bus bodies and motor homes; and aircraft equipment.

Declining Savings Dries Up Capital

Historically, the household sector has always been a major contributor to the savings available for capital formation. But a continuing decline in the saving rate of Americans is drying up that source.

Commerce Department estimates put the saving rate at 3.3 cents for each dollar of after-tax income in the fourth quarter of 1979, which was less than half the average during the first half of the 1970s and well below the average of six cents per dollar of income for the years since World War II.

"Given the critical need to accelerate capital formation in the interest of improving productivity gains, the declining trend of household saving is most unwelcome," reports Morgan Guaranty Trust Co., New York City.

The company blames three main factors for the trend: First, many people are unwilling to trim their living standards to meet higher food and energy costs with funds that might otherwise have been saved; second, people who have given up hope that inflation will be curbed have decided to buy now before it costs more; and third, increases in real estate values have made homeowners feel richer and less inclined to save.

PHOTO: SEYMOUR GILES

The aircraft industry should exceed real growth of 13 percent this year, says the U. S. Commerce Department, which foresees a decline for motor vehicles.

CORPORATIONS

Management May Add to Effects of Inflation

Contrary to popular belief, the rate of inflation within product lines does not seem to be the main cause of the damage inflation does to a particular company.

According to a study conducted at the University of Michigan, inflation does not produce uniformly damaging effects on American business; over the past decade, its effects have ranged from disastrous to highly beneficial.

The study's researchers, Profs. Thomas G. Gies, Timothy J. Nantell, and Raymond R. Reilly of the university's Graduate School of Business Administration, reviewed the performance of wholesaler-distributors in four major product areas—metals, foods, drugs, and building materials. They found that the average inflation rate varied from 6.2 percent in drugs to 12.3 percent for building materials, compared to 9.7 percent for all commodities.

Among the 642 firms studied, the researchers found that the consequences of inflation for financial performance varied with management policies rather than with the rate of inflation in the industry.

"Nothing fails like success," says

Prof. Gies, "and those firms that continue to follow the same management formulas that worked in the past are inevitably moving into serious problems now."

A Big Market Share Is Not Always Valuable

Although businesses are usually more profitable with a high market share, there are exceptions.

Sidney Schoeffler, executive secretary of the Strategic Planning Institute, a New York City membership organization dedicated to advancing the science of business strategy, explains:

"Although a strong market position can enhance profits under almost all circumstances, the profitability gained from a strong market share varies according to the specific circumstances of a business."

A strong market position can be especially valuable when an industry is in an early stage of its life cycle, when employees are not heavily unionized, when the technology requires a high degree of vertical integration, or when a high level of marketing expenditure is necessary.

"Our data base indicates these kinds of conditions reinforce each other," says Dr. Schoeffler. "When several of them are present, an increase in share is probably worth a great deal. But when few conditions are present or opposite conditions prevail, the value of increasing market share is usually less."

SMALL BUSINESS

House Investigates Capital Shortage

After months of investigations and hearings on the problems faced by small firms trying to raise capital, a House small business subcommittee has reached the same conclusion as the delegates who attended the White House Conference on Small Business: Capital is unavailable or too expensive, and action is needed to alleviate the problem.

The subcomittee suggests several possibilities for relief. Rep. Henry J. Nowak (D.-N.Y.), subcommittee chairman, has offered legislation to implement some of the suggestions, including an accelerated depreciation measure said to be more favorable to small business than its forerunner, 10-5-3.

This new bill would impose a $1 million limit on the amount depreciated for machinery, equipment, and vehicles over a four-year period, offer a ten percent investment tax credit on certain equipment, and allow a 15-year write-off time, with a cap of $3 million for buildings.

Rep. Nowak has also introduced bills that would permit firms to roll over capital gains reinvested in another small enterprise and raise the current $100,000 investment tax credit on used equipment to $200,000.

The White House conference delegates devoted one third of their top 15 recommendations to capital formation. The recommendations they made parallel Rep. Nowak's bills.

Credit Reporting Bill Defines Owners' Rights

According to Sen. Lowell Weicker, (R.-Conn.), dissemination of credit information has a devastating impact on small entrepreneurs because erroneous information is passed directly from reporting services to potential creditors, leaving businesses without redress.

Sen. Weicker wants to change the commercial credit reporting law by establishing rights for business owners on credit reporting matters equal to the rights enjoyed by individuals.

Sen. Weicker's bill, the Fair Commercial Reporting Practices Act, would give a business the right to learn which credit reporting agency prepared the credit report, to obtain a copy of the report, to petition for another investigation, and to have a corrected report issued.

Sen. Lowell Weicker would allow business the right to review credit reports.

Sen. Weicker says small business owners currently have no statutory protection against unfair credit reports. "Abuses and misuse of information depicted by witnesses leave no doubt that legislation is needed to ensure fairness," he adds.

Stock Options May Become a More Useful Incentive

Sen. Bob Packwood (R.-Oregon) has introduced legislation to create a new form of tax-favored incentive stock option for new and small business employees.

Under current law, employees must pay taxes on income from stock options, and that income is the difference between the option price and the market price at the time of purchase. Under Sen. Packwood's bill, employees would not pay taxes upon exercising their option to buy, and income from a subsequent sale would be regular capital gains.

PERSONAL

Job Applicants Should Come in a Fit Package

A job interview is not unlike a sales presentation, says National Personnel Associates, a network of independent management-level personnel agencies. "Let's face it, if you're not impressed with the sales representative, you probably will not buy the product," the firm says.

If you are in the job market or planning to change jobs, getting in shape or staying in shape should pay off.

"It is difficult to place overweight applicants because of workers' compensation rates and failure to pass physicals," says the firm. Other unfavorable characteristics attributed by employers to overweight applicants include unwillingness to be on one's feet, lack of pride in self or work, and lazy working habits.

"Traditionally, managers have tended to hire in their own image. Now that more managers are on a health binge, they will be drawn to fellow joggers and tennis players." That makes the overweight difficult to place, the

firm says, unless the employer is also overweight.

An agency spokesman says that although this attitude prevails, "most overweight people I know work hard. They spend more time working than exercising."

Possible Tax Exemption for Those Who Save

Small savers may get a tax break soon. The Carter administration's windfall profits oil tax bill has been amended by House-Senate conferees to exempt up to $200 in interest and dividend income for single persons and $400 for couples.

But the break would be only temporary—good for 1981 and 1982 taxes. Making the exemption permanent would cost an estimated $27 billion over the 11-year life of the tax. The two-year exemption is expected to cost $4.3 billion.

The first $100 of dividend income for a single person, or $200 on a joint return, is not taxed under current law. All interest income is now subject to taxation.

AGRIBUSINESS

GAO Finds Fault With Set-Aside Program

The Agriculture Department's wheat and feed grain set-aside programs could be more effective if the agency had stricter certification and compliance standards, according to the General Accounting Office.

The 1978 set-aside program—established to reduce expected surpluses of certain crops while giving benefits to farmers who participate—took about 17 million acres out of production. The program paid out $1.8 billion for commodity loans and purchases and deficiency and disaster payments.

GAO says, however, that some farmers in the program did not take out of production the entire amount of land agreed upon, but continued to collect the benefits. This practice has greatly reduced the program's effectiveness, GAO says.

The agency recommends that Agriculture establish a strict compliance program under which producers who continue to use set-aside farmland will be denied program participation. Documentation of set-aside should be required, both at the time of certification and during follow-up visits, which should be increased, GAO says, and aerial observation should be used to help determine compliance.

GAO also says that the department should reestablish normal crop acreages for all wheat and feed-grain farms based on recent planting histories, ensure that information is properly supported and documented, and obtain annual planting data from participating farmers.

The Agriculture Department does not agree that recent planting histories should be used as criteria for establishing normal crop acreages. The agency has promised to strengthen existing criteria based on good faith, but it does not favor a strict compliance program.

PHOTO: PARMA—BLACK STAR

The General Accounting Office has found some cheating on set-aside programs.

TRENDS

Nation Faces Shortage of Qualified Workers

"Management should prepare for manpower shortages in the 1980s, particularly among qualified workers," warns Seymour L. Wolfbein, an economist and Temple University professor, in *Management World*.

The post-World War II baby boom resulted in a 35 percent increase in the number of new young workers during the 1970s, but a subsequent decline in the birth rate may result in a 15 percent decrease in the number of new young workers, he says.

Dr. Wolfbein says management should pay immediate attention to raising the competency level of young people.

Legislation and Inflation Cause Benefit Reviews

Many employers are reexamining their employee benefits and retirement plans because of the strain of inflation on retirees' incomes and the new Age Discrimination in Employment Act, which raised the mandatory retirement age to 70.

A study by the Bureau of National Affairs publishing house in Washington, D. C., shows that 62 percent of the companies surveyed sometimes recall retirees for temporary assignments when special skills or extra hands are needed, and 52 percent make arrangements for some employees to stay on as consultants. But only 15 percent have a tapering-off program that allows employees to reduce their working time as retirement approaches.

A separate study by Hewitt Associates, actuaries and employee benefit consultants in Lincolnshire, Ill., shows that employers take little advantage of provisions in the act that would permit them to cut benefits.

Only 26 percent use the executive exemption, which allows firms to require retirement at 65 for executives whose annual pension benefits total $27,000 per year.

Although not required under the act, about half of the companies surveyed provide increases in pension benefits to employees working past age 65.

Similarly, about half of the compa-

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OUTLOOK

nies continue the same level of group life insurance coverage to employees over 65, regardless of costs, although the act permits a reduction.

Traffic Accidents Are Smashing Records

Traffic accidents in 1979 put a record dent in the pocketbook. The resulting economic losses exceeded $58 billion—an all-time high, according to the Insurance Information Institute in New York City.

Inflation is the principal cause of the increase in economic losses from $52.6 billion in 1978, the institute says. Losses in 1968 totaled $18.1 billion.

Contributing costs, according to the Labor Department's consumer price index for 1979, were a 10.2 percent increase in cost of auto repairs and maintenance, a 10.1 percent increase in all medical care costs, and a 5.9 percent increase in the cost of auto insurance.

GOVERNMENT

Energy Department Plans Oil Import Controls

Oil imports are down, but the Energy Department plans to have a mandatory control system ready for use if the imports rise to the limits set by President Carter.

A department spokesman says the mechanics are being worked out now to implement the license fee system proposed by the President. Other conservation measures are also being discussed.

They range from simple changes in industry reporting to a complete federal takeover of petroleum imports. Congress has given the President authority to control imports, though such action would be subject to congressional veto.

The department says there may be more public discussion of federal involvement in the months ahead. For now, nothing more is likely to happen.

Petroleum import controls are being readied by the Energy Department in case they are needed to keep imports below the limit set by President Carter.

Natural Gas Pricing Policy Called Inflationary

All users should pay equally for the direct costs of energy production, the U. S. Chamber of Commerce told the Federal Energy Regulatory Commission in urging the repeal of the incremental natural gas pricing policy.

The current pricing system, mandated by a 1978 federal law, ties the price of gas used as a boiler fuel to the price of oil. The commission has proposed that this policy be extended to such categories of gas usage as feedstock, process, plant protection, and other industrial nonboiler applications.

Mark Salvino, president of Peoples Energy Corp. in Chicago, Ill., says that setting gas prices under incremental pricing not only increases inflation by raising prices for domestic goods and services, but also runs counter to national energy policy. "Incremental pricing forces companies to switch from natural gas to other energy sources, including foreign oil, or even to leave the United States to locate elsewhere," he says.

INTERNATIONAL

U. S. Export Incentives Found Lacking

When it comes to exports, the United States is not the country that tries hardest, according to a study by Howard L. Weisberg, director of trade policy at the U. S. Chamber of Commerce, and Charles Rauch, research assistant.

Mr. Weisberg and Mr. Rauch found that the marketing assistance, financial support, and tax incentives the United States offers its exporters are generally not competitive with the export assistance programs of its major trading partners.

Along with comparisons of programs, the authors have included in their report charts summarizing each country's programs.

Third World Progress May Change Industries

Several Western industries will face problems as many Third World countries change from suppliers of raw materials to manufacturers of basic industrial goods. That prediction comes from Swiss Bank Corp., New York City.

Rudolph Buxtorf, an economist with the bank, concludes that Western and Japanese steel companies will need to reorganize to improve profitability at a lower rate of sales. But prosperity may be gone forever for some industries such as the man-made fibers industry, he says.

"As the new trend towards international specialization develops," Mr. Buxtorf says, "the only products industrial countries will be able to make profitably will be either those requiring a great deal of capital and technology or items mass-produced at extremely high productive efficiency."

To survive, he says, the man-made fibers industry will have to cut back capacity, improve production efficiency, and concentrate on producing high-priced fibers. □

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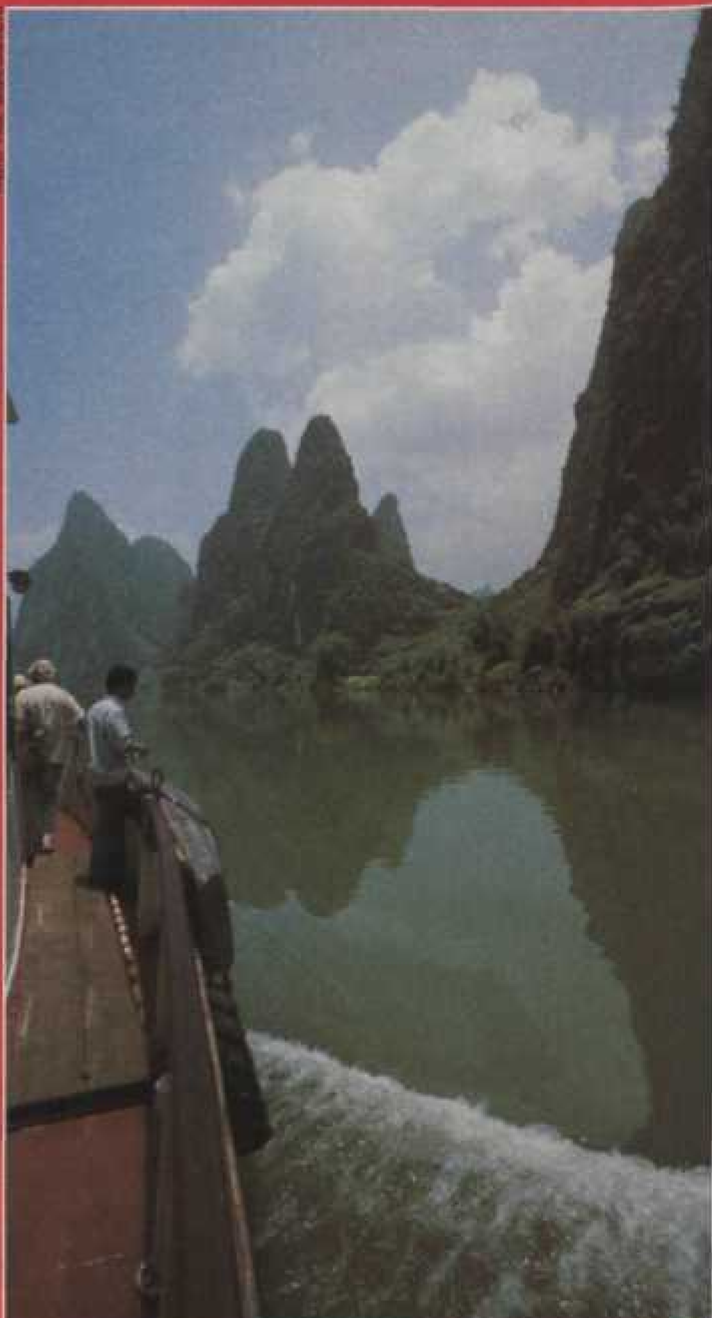
INTERNATIONAL

We build your kind of Truck.

China's economic blueprint calls for an optimistic ten percent increase in industrial output each year.

"Young people did not get an education during the Cultural Revolution," says Xu Shiwei of the Peking Foreign Trade Institute. Graduate studies resumed in 1978 with only 9,000 students.



Tourism is a potential money-maker for the Chinese economy. But a lack of hotels and other facilities has forced China to reject almost 75 percent of all tourist applications.

An increase in textile exports is one way China hopes to earn foreign exchange to finance modernization.

Although supermarkets are still rare, the Chinese are becoming more consumer-oriented.

商

CHINA: A Seller's Market

By Bob Aaron

MAO TSE-TUNG, the legendary Chinese leader, preached to his followers: "Political power grows out of the barrel of a gun."

Chairman Mao's heirs have apparently shrugged off that revolutionary slogan and, to paraphrase their late leader, now believe that economic power grows out of factories, farms, and schools.

The government in Peking has set a course aimed at turning the People's Republic of China into a front-rank economic power by 2000. To do that, China is turning to the rest of the world—excluding the Soviet Union—for help. While some China-watchers are skeptical that the present regime can carry out the massive plan, most observers admit that China has emerged from its 30-year, self-imposed diplomatic cocoon into a period of relative stability. They also recognize that China's new development effort could rival the Marshall Plan and dwarf the reconstruction of Western Europe after World War II.

Promising prospects

Ambassador Han Hsu, chief of the Chinese foreign ministry's U. S. department and formerly China's number two official in Washington, D. C., for six years, comments: "The Chinese leadership is now very stable. The Chinese economy needs time to readjust—it is not fast, but its prospects are promising."

Those prospects were enhanced when the United States granted China most-favored-nation trading status, which ensures tariff treatment no less favorable than that accorded other major U. S. trading partners, and started implementing a three-year trade agreement. The overwhelming Capitol Hill vote came 12 months after the Carter administration established diplomatic relations with China—ending a three-decade hiatus—and about one month after Soviet troops toppled one government in Afghanistan, installed another, and, as a result, nudged Washington and Peking a little closer together.

The Commerce Department estimates that U. S. exports to China could reach $4 billion by 1985. U. S. sales to China last year topped $1.5 billion. A U. S. diplomat posted in Hong Kong cautions that the new trade pact and tariff status may mean less than U. S. businessmen and the Chinese would like to think. He says that the Chinese are reassessing and have slowed purchases from overseas. Furthermore, he points out, the enthusiasm of some U. S. business people, frustrated by the cumbersome and complicated Chinese bureaucracy, has abated.

However, most U. S. firms are still assessing business prospects with the large but backward Chinese market.

"Many business people are going into China thinking about making big money—a lot of profit—but no one will make a killing," says a Hong Kong-based importer of arts and crafts with five years' experience in dealing with China. "There is a feeling that China is a huge market and that a killing is possible," he adds. "But the Chinese will not let that happen. They are wary of foreign investors and will negotiate down to the last inch."

Wang Run-sheng, vice minister of

PHOTO: BOB AARON

An enterprising small businessman sells candy to passing pedestrians and bicyclists on a windy street in Peking.

Vice Premier K'ang Shih-en (right) told Richard Lesher, president of the U. S. Chamber of Commerce, that a large portion of China's offshore oil will be sold to America.

The Private Enterprise Professor

Stocks and bonds, profits and losses, corporate charters, and limited liability were taboo subjects a decade ago during the Great Proletarian Cultural Revolution—a political convulsion that one China watcher has dubbed a frontal lobotomy performed on an entire nation.

While China's post-Mao leaders have not exactly exchanged their copies of Karl Marx's *Das Kapital* for editions of Adam Smith's *Wealth of Nations*, careful discussions about capitalism—among government officials—apparently are no longer a political crime.

About 15 Chinese bureaucrats representing five government agencies dealing with foreign trade and investment took part in such a conversation when U. S. Chamber of Commerce President Richard L. Lesher led a seven-member delegation to China on an eight-day, fact-finding mission.

Dr. Lesher, a former university professor, delivered a lecture on private enterprise economics to the group in an historic guest house that over the years had housed the embassies of the United States, Burma, and India.

"Common stock and stockholders are the essence of the private enterprise economy," Dr. Lesher asserted. "Individuals are encouraged to purchase shares that may go up or down in value with the hope of large profits and gains."

Dispelling "the myth that American capital is controlled by a handful of people," Dr. Lesher explained that about 30 million Americans own shares of stock issued by corporations and that another 90 million are shareholders through pension funds, life insurance, mutual funds, and investment trusts.

A key incentive provided by capitalism, Dr. Lesher pointed out, is the "virtually unlimited mobility of the individual—moving from job to job, career to career, industry to industry. You cannot understand our system without understanding mobility—for the factory worker and the executive."

Dr. Lesher outlined other incentives built into capitalist economics: Salaries, benefits including paid health and life insurance, sick leave, holidays, and vacations; an average 38-hour work week; bonuses; and retirement pensions.

Explaining the three forms of profit-making organizations in the United States—proprietorships, partnerships, and corporations—Dr. Lesher said that corporations have the advantage of limited liability; shareholders risk only their investment, none of their other assets.

Dr. Lesher, a former top-ranking official of the National Aeronautics and Space Administration, used the 11-year, $40 billion effort to land American astronauts on the moon to illustrate the relationship between U. S. business and government.

"The space program is a magnificent example of our system responding to a challenge," he said. In 1966 when the largest space expenditures were being made, about 450,000 individuals were involved in the program full-time—415,000 employees of corporations and universities and only about 35,000 government workers.

"A major part of the space program," Dr. Lesher explained, "was done by private, profit-seeking corporations."

The moon landing, he said, "was an achievement of science, technology, and private corporate cooperation with government through a sophisticated system of contracting.

"Today, the United States faces an energy problem. I believe it will be solved by harnessing the same factors we used for the lunar landing."

foreign trade, bluntly says: "The trade agreement is in force, but that does not mean there are no problems." Negotiations are moving slowly or are stymied, for example, on a commercial airline agreement, a maritime pact, and U. S. Export-Import Bank credits.

Textile tiger

Perhaps the biggest obstacle to improving business relations is the sensitive issue of textiles. A textile agreement between the two nations resisted even the finely tuned negotiating skills of Robert Strauss, former special trade representative.

The Chinese would like to boost their textile exports to the United States to help earn foreign exchange credits needed for imports of costly western technology. But agreement over textile imports is stuck in U. S. pocketbook politics and Chinese policy.

Meanwhile, the United States has levied quotas on imports of Chinese textiles, an approach that appears acceptable to China, according to a U. S. consular official in Hong Kong. Mr. Wang of the foreign trade ministry referred to textiles as a tiger that the United States feared. He told U. S. Chamber of Commerce President Richard L. Lesher during a recent fact-finding mission to China that "we must exert joint efforts to solve the textile problem."

Mr. Wang suggested that the United States trim its imports from other nations—likely targets are Taiwan and South Korea—and open its ports to more textiles from China. Dr. Lesher responded that it was "an unfortunate problem, but the fact is that the world's supply of textiles exceeds world demand.

"Political maneuvering is needed and is going on to iron out this problem," Dr. Lesher added. "It should not stand in the way of beautiful progress on other trade and investment issues."

Despite some progress, China's economic development will require decades of effort. Communist Party Chief Hua Kuo-feng, 59, and Senior Vice Premier Teng Hsiao-p'ing, 76, are faced with overhauling a sometimes primitive economy that must feed, clothe, and house the world's most populous nation—a nation still scarred by decades of war, foreign invasion, revolution, civil and social unrest.

Assessing the future

A U. S. Central Intelligence Agency analysis points out: "China's nearly one billion people, an agricultural sector technologically so backward that it employs 70 percent of the labor force and industries using techniques that are ten to 30 years out of date—these are the basic determinants of China's economic future, and they will impose strict limits on the pace of modernization."

Penelope Hartland-Thunberg, director of economic research at Georgetown University's Center for Strategic and International Studies, visited Chi-

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Home Sweet Office in Peking

Chances are that any Chinese official interested in luring U. S. trade and investment has memorized these telephone numbers: 55-6531, 55-2231, and 55-8331.

All of them ring the sometimes balky switchboard at the Peking Hotel, an overcrowded compound that doubles as an office and residence for most of the staff of the 30 to 50 U. S. firms with offices in China.

Not long ago, said John A. Bing, vice president and manager of China operations for Pullman Kellogg Far East, Inc., there was a shakeup at the hotel due to the tight space situation. Guests had to reregister, and if an office was not staffed, the space had to be turned in.

The number one complaint among Americans in Peking appears to be the lack of quality office and living space, along with copying machines and other office equipment that is taken for granted in doing business elsewhere.

"The lack of facilities is keeping people away," says Thomas Shoesmith, U. S. consul general in Hong Kong. "It is a handicap to trade and financial expansion.

"I suppose," Mr. Shoesmith adds, "that every businessman in China during the past two years has rung this bell."

U. S. State Department officials in Hong Kong indicate that the Chinese are reviewing an agreement to construct a trade center in Peking with the idea of possibly scaling down the complex.

Most Chinese officials are vague about details of the project. Ambassador Han Hsu, director of American and oceanic affairs at the foreign ministry, said that a 400-office facility is in the works and has a 1982 completion date—a target that many U. S. sources in Peking believe to be unrealistic.

Vice Premier K'ang Shih-en, one of China's top economic planners, predicted that "in two or three years the business community's problems will be alleviated." He admitted that the "tempo of demand cannot keep pace with the supply of housing," but added that the Chinese will not attempt to curb U. S. business activity in Peking.

Facilities aside, U. S. business people dealing with the Chinese are plagued with frustrating delays in negotiations—sometimes unexplainable lapses stretching into several months.

One midwestern heavy-equipment manufacturer recounted a trip to China seven years ago—a planned five-day mission ballooned to a month-long journey, triggered by long delays in scheduling appointments with key officials and repeated requests for briefings on his firm's organization, history, and products.

Eighteen months later, the firm signed an agreement with the Chinese.

A Hong Kong importer of Chinese arts and crafts said that he gets especially frustrated waiting for meetings. "If I went to Korea to do business," he explained, "I could do in three days what it takes eleven days to do in China."

Another common complaint is the information vacuum about the Chinese economy and specific projects under negotiation. "More data of all kinds are needed," explained a U. S. banker in Hong Kong. "The Chinese are generating more information now—there has been a great leap in the past year."

An American oil company executive says that a typical problem involves tracking down the right Chinese official with whom to do business.

The government is a maze of overlapping ministries, commissions, councils, and other organizations with sometimes very fuzzy lines of authority. Efforts at government decentralization make it difficult at times for U. S. business people to know whether or not they should be dealing with officials in Peking or local and provincial authorities.

Mr. Bing of Pullman Kellogg says that U. S. business people in Peking face several problems:

- Learning to understand their counterparts in the Chinese corporations and their very different business style.
- Bridging language differences, which, he says, account for half of the problems encountered.
- Communicating back to the United States. Telex, photocopying, secretarial, and other office services are scarce.

"Wipe every bit of Western civilization out of your minds," is the advice to business people bound for China from John F. Goudey of Union Carbide Eastern, Inc., and a governor of the American Chamber of Commerce in Hong Kong.

"Avoid comparisons," Mr. Goudey warns, "even with Russia."

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na four months ago. She assesses the country's future this way: "Whether the leaders can bring out the latent productivity in the Chinese people under a system with less material rewards than capitalism remains to be seen. There is no evidence that communism has ever done so in the whole history of the movement."

A. Jackson Rich, an international trade specialist at the Commerce Department, has a more upbeat view of China's economic prospects.

"China obviously and consciously is working on a Yugoslav model," Mr. Rich says. "Chinese socialism will crank in incentives to make the system work."

Part of the problem in preparing China's economy for the 21st century is the political fallout from a bitter factional struggle with roots in the Great Proletarian Cultural Revolution of 1966-69, an upheaval against bureaucracy and the Chinese Communist Party largely directed by Chairman Mao.

Radicals then generally favored strong economic nationalism, banned foreign influences, and stressed small, local plants and traditional job skills.

Moderates recognized the limits of China's resources. They supported massive injections of foreign goods and technology in a calculated move to speed China's development.

One month after the death of Chairman Mao in September, 1976, the radicals were purged and their leaders—known as the Gang of Four—were arrested. This political blood-letting cleared the way for China's opening to the United States, which began cautiously in 1972 with President Richard Nixon's visit to Peking.

"The radical element that played a

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Mozart flowing

Ultimately, the 450 SEL amounts to something more than the sum of its facts and figures. The Editor of *Car and Driver* put it into words.

"I sincerely wish," he wrote, "that everyone I love, anywhere in the world, could savor the experience of rushing down a country road in the middle of the night with Mozart flowing out of the speakers, and the three-pointed star, silhouetted against the headlights' path, leading the way. What a gift!"

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big role in the 1960s and the early 1970s still survives, but in a suppressed and subordinate state," says Robert L. Downen, a senior fellow for Chinese and East Asian affairs at the Georgetown international studies center. "Political or economic destabilization could allow the radicals to regain positions of power."

Two-way trade

Following President Nixon's visit and resumption of commercial relations, two-way trade between the United States and China got off to a slow start, totaling $461.9 million in 1975 and climbing to more than $2 billion last year.

Chinese authorities began talks in the 1970s with various U. S. firms including Pan Am's Intercontinental Hotels Corp., Hyatt International Corp., Kaiser Engineers, Bethlehem Steel, Pullman Kellogg, Ford Motor Co., Boeing, Coca-Cola, and several oil companies interested in drilling for oil and gas off the Chinese coast.

Peking's modernization plan—initially calling for completion of 120 industrial projects and perhaps a $40-billion investment in foreign capital between 1976 and 1985—was unveiled by Chinese Communist Party Chairman Hua in February, 1978, at the Fifth National People's Congress. It was based on a blueprint originally done in 1975 by the late Premier Chou En-lai.

Ambitious goals

Industrial goals call for construction or development by 1985 of ten iron and steel complexes, nine nonferrous metal facilities, eight coal mines, ten oil and gas fields, 30 power stations, six new trunk railways, and five key harbors.

Selected industrial targets include a doubling of coal production between 1978 and 1987 to more than one billion tons a year, implying an average annual growth rate of 7.2 percent, compared to an actual average yearly gain of 6.3 percent since 1970. Oil production is earmarked to increase 13 percent annually, rather than the 20 percent rate posted in the past.

Agricultural goals are a 4.3 percent boost in grain production and a four to five percent annual increase in farm output from 1978 to 1985. To accomplish this, economic planners have targeted a 70 percent boost in large and medium-sized tractor production, a 110 percent increase in machine-drawn farm implements, a 32 percent hike in drainage and irrigation machinery,

and a 58 percent gain in chemical fertilizer production.

While the blueprint sets an overall industrial growth rate of more than ten percent a year from 1978 to 1985, Mr. Rich of the Commerce Department points out that the "blueprint and the actual plan for the performance of the economy are not the same. The Chinese are too realistic to be hemmed in by limits.

"If 100 major hydroelectric projects are to be completed under the plan," Mr. Rich explains, "the Chinese may work only on 12 during the next decade, and this could be narrowed to six. What they do depends on the availability of funds and technical assistance."

The Soviets, on the other hand, Mr. Rich says, would announce plans to construct 100 hydroelectric stations, start to build all 100, and finish very few.

Still some snags

While the Chinese economic plan should give U. S. business people some clues about the types and quantities of goods Peking is interested in purchasing, there are indications that the planning process is troubled.

Chen Cheng-t'ai, deputy general manager of the Bank of China, candidly admitted that two months into 1980 the economic plan for this year was not yet final. "We don't know the trade ministry's plans for import levels," Mr. Chen said, "so we don't know how much credit is needed."

The Chinese concede that they are in the midst of a three-year readjustment period—a period that Thomas Shoesmith, the U. S. consul general in Hong Kong, says could stretch to five years. During this time the Chinese are catching their economic second-wind. Mr. Shoesmith says that they are concentrating on increasing productivity and efficiency in agriculture and light industry, boosting consumption and wages, and trying to ease bottlenecks in heavy industry.

U. S. technology sought

Vice Director Chi Haibin of the finance ministry recognizes that "in 20 years, it is a heavy task to modernize. We welcome cooperation from advanced countries; we especially welcome U. S. technology."

Arguing the case for American investments—particularly investments of the latest technology—Jung I-jeng, general manager of the China International Trust and Investment Corp., points out:

"China has great resources, a huge

labor force, a low standard of living and, therefore, low wages, and a unified, stable state. These are favorable conditions for investment."

Other nations realize this, and U. S. business people are facing stiff competition as they try to cultivate the Chinese market.

Before normalization of diplomatic relations, the Commerce Department reported that the United States had only a 2.9 percent share of the manufactured goods imported into China from the West. Japan had cornered 61.5 percent of the market, and West Germany had 15.8 percent.

Shipping containers

"I see competition all of the time with Japan, Germany, and other countries," asserts Martin H. Midleton, a Canton-based project manager for Container Transport International, Inc., which is building a 200,000-square-foot facility in the Canton area that will employ about 500 workers and manufacture 40 shipping containers daily.

"The Chinese want to do business with the United States," says Mr. Midleton, who is the first resident American businessman in Canton. "But the United States must improve the quality of what it sells to China."

The Chinese are trying to make their country more attractive to foreign investors.

A joint-venture law was enacted last July, and the investment corporation headed by Mr. Jung was set up to work out business arrangements with foreign investors.

Among its provisions, the joint-venture statute requires that overseas investors provide not less than 25 percent of the capital needed for projects and that the "profits, risks, and losses of a joint venture be shared by the parties to the venture in proportion to their contributions to the registered capital." The law calls for foreign investors to contribute advanced technology appropriate to China's needs.

Equality and benefit

Mr. Jung explains that the two guiding principles of foreign investment in China are equality and mutual benefit. "Borrowed money must be repaid; therefore, there must be profits."

The Chinese regard the joint-venture law as a set of general principles that will be made more specific and perhaps be supplemented by additional laws on patents and taxes as experience is acquired. They believe that many gaps in the law will be filled through the process of contract negotiations on individual projects.

Some American business people say the joint-venture law is vaguely worded. Questions have cropped up over the power of the Chinese chairman of the board of directors, the right of foreign partners to fire Chinese workers, tax liability, the definition of advanced technology, and other matters.

"We know that American business people are dissatisfied with the lack of supplementary laws and regulations," Mr. Jung says. "This is the common view among foreigners, but the Japanese have fewer misgivings—they say that we can start with negotiations on specific projects."

The China investment corporation reports that between July and December last year, 33 nations approached the Chinese for meetings to explore possible joint ventures. A total of 360 sessions were held. U. S. business people led the list, attending 90 meetings. Business representatives from West Germany and Japan were second and third in the meeting tally.

No final agreements

"Ten agreements have been worked out since last July," Mr. Jung notes, "but they are not final." These projects involve light industry and textiles, transportation, and resource exploration.

Asked about the possibility of 100 percent foreign ownership of some projects, the urbane Mr. Jung said: "We mean what we say—no jokes.

"If foreign investors want a 100 percent investment," he explained, "we will seriously consider it. It would not be a joint venture—management would be by the foreign investor—here lies the difference."

In most joint ventures the Chinese would likely have a 51 percent share and the foreign investor, 49 percent.

The Chinese also have been actively pursuing compensation arrangements with foreign investors. Such relationships generally call for the Chinese to provide factory shells and labor to build facilities, while foreign investors provide raw materials, designs, know-how, equipment, and perhaps other resources. Foreign investors are repaid with the output of the project.

The first factory operating under a compensation trade agreement opened in 1978. By 1979, there were 38 other compensation agreements in the works.

Vice Premier K'ang Shih-en, who is


...NO...
THIS IS NOT
KISSY LIPS...
Gahan Wilson

director of the State Economic Commission and responsible for developing China's coal, oil, and petroleum resources, believes that compensation agreements may be a way to tap energy supplies off China's coast.

He pledged to a U. S. Chamber delegation at a meeting in the Great Hall of the People that a large portion of any oil found on China's outer continental shelf would be sold to the United States.

Exploration for oil

"The prospect of finding oil on the continental shelf is good," the affable Mr. K'ang predicted, admitting that China lacks the machinery, equipment, and technology to develop this national resource.

"To exploit oil resources," he added, "requires the spending of a lot of money, and we lack the money."

Oil exploration in China, Mr. K'ang forecasts, "will provide many opportunities for American investment—opportunities to transfer technology."

"Chinese oil will make a difference in the U. S. economy," predicts Dr. Lesher of the U. S. Chamber. "It will not make a difference in the price of oil, but in the security of supply." He believes that the Chinese will price their oil at about the levels set by OPEC, but will not restrain supply.

Joint ventures, compensation agreements, and other types of business arrangements reflect the financial constraints under which the Chinese are operating. To pay for the $30 billion to $40 billion in foreign technology and equipment the Chinese may purchase to reach their 1985 goals, one CIA estimate forecast that Peking would have to expand export earnings at an average annual rate of 20 to 25 percent through 1981 and by about ten percent thereafter.

"Western money markets," the CIA concludes, "are well disposed to extend the $15 billion to $20 billion in credits that China will require over the next several years to finance a $40 billion capital import program."

The Chinese are trying to hasten economic development without becoming too dependent on overseas money.

"Last year," says Mr. Chen of the Bank of China, "we started to obtain credit from various foreign banks—Britain, France, Italy, and others. We are following Chairman Mao's concept of self-reliance, although we are thankful for foreign help."

Comparison of rates

Varying interest rates are a major concern. "As a shopper for money," says Mr. Jung, "we have to make a comparison among nations. For a foreign investment to be successful, profits must exceed interest rates."

The Chinese are tinkering with their economy in other ways aimed at increasing productivity and making foreign investment more attractive.

Localities and provinces, for example, have gained more authority to

Would You Spell That, Please?

Peking or Beijing? Mao Tse-tung or Mao Zedong? Teng Hsiao-p'ing or Deng Xiaoping?

Confused? Well, the Chinese are trying to make it simple. They are not changing the names of people or places, but are shifting to a Romanized alphabet that will change all the familiar Chinese names and probably create as much confusion in the United States as the metric system.

On Jan. 1, 1979, the New China News Agency began using the pinyin system—a Romanized method of phonetically spelling Mandarin Chinese.

"For English speakers who are accustomed to seeing Chinese names phoneticized according to the Wade-Giles system, pinyin will offer some unusual combinations of letters—qi, zhai, xiao, xun—whose pronunciations appear awesome," a U. S. International Communication Agency report explains.

The agency notes the principal differences: Ch and ch' in the Wade-Giles system of transliterations, which includes four different sounds in Chinese, will appear in pinyin as ch, zh, q, or j; the sibilant hs will become an x; ts' and ts will be spelled as c and z; and j will become r.

The hyphen, which Wade-Giles uses to link two parts of a name, is eliminated in pinyin.

The apostrophe, used in the Wade-Giles system to indicate an aspirated sound, is used in pinyin only to separate two syllables that might otherwise be read as one. Therefore, Sian becomes Xi'an, whereas hsien—which means country—is written xian.

Here are some other examples of the different transliterations between Wade-Giles and pinyin. The late Chinese Premier is spelled Chou En-lai under Wade-Giles, but Zhou Enlai under pinyin. With Wade-Giles, the Chinese Vice Premier in charge of the economy is transliterated K'ang Shih-en, but with pinyin it is Kang Shien.

The language reforms focus on:

- Simplification of characters. Traditional Chinese ideograms—there are 44,908 in the 1915 edition of the *Great Chinese Dictionary*—contain from one to 30 or more strokes. Chinese is complex; basic literacy requires mastery of about 3,000 ideograms and an understanding of 8,000 to 10,000 characters.
- Standardization of the spoken language. China's population speaks a dozen or more dialects and 53 minority languages.

Attempts to phoneticize Chinese ideograms date to Marco Polo's expeditions to the Middle Kingdom about 700 years ago. The first Chinese adoption of Latin writing came in 1892, and other systems soon followed. Soviet and Chinese linguists developed a Latinized language system—Latinxua—in 1928 and experimented with it during the early 1940s.

In a major political tract published in 1940, Chairman Mao called for revamping Chinese to bring it closer to the people.

Thirty-five years later, the New China News Agency reported that the ailing leader still believed that "the Chinese written language must be reformed and should move in the direction of adopting a phonetic script, the common direction of languages throughout the world."

After much hesitation, the pinyin system was accepted. On Sept. 14, 1978, the news agency announced that the education ministry had ordered provinces, municipalities, and other regions to promote the teaching of the common spoken language and the Chinese phonetic alphabet in schools. Language teachers were given five years to master the phonetic alphabet and others, eight years.

make decisions during the past two years.

Vice Director Chi of the finance ministry says economic studies to increase provincial powers are under way. "In the past," he explains, "all foreign trade was approved by the ministry of foreign trade. Now some provinces and cities can do that.

"This reform is on trial," Mr. Chi admits, "but we expect gradual expansion. Big projects still are subject to central government approval." But the line between large and small projects is vague.

Disgruntled work force

The success of China's modernization plan will hinge on Peking's ability to boost worker productivity through improved incentives. Four years ago, the present leadership was faced with a disgruntled work force plagued by absenteeism, slowdowns, and strikes. In 1977, Chinese authorities announced pay raises for three fifths of the urban labor force.

"However," a CIA analysis says, "the wage increases—amounting to as much as 15 percent for the lowest-paid workers and around ten percent overall—are probably regarded by many as inadequate."

The CIA predicts that further concessions will be needed to improve productivity.

Despite a strong national commitment to modernization and growing support from foreigners, molding China into a first-rate economic power by the turn of the century seems a longshot.

50-50 chance of success

Following eight days of talks with American business people, Chinese government officials, and U. S. diplomats, Dr. Lesher of the U. S. Chamber concludes that China has only a "50-50 chance of achieving a substantial amount of modernization by 2000 and may not be where Russia is today in economic development."

The U. S. Chamber president warns that the Chinese should prepare themselves for a lot of failures and delays, which he thinks will result from an incredibly large and complex bureaucracy, the absence of transportation and support systems such as contract and tax law, the lack of economic incentives, and a minimal amount of technology.

On the plus side, Dr. Lesher believes China's modernization chances are enhanced by its population, natural re-

sources including oil, gas, and minerals, and poverty.

"Poverty is a great motivator," Dr. Lesher explains. "There is a clear longing for material goods in China."

China's long march toward modernization is intertwined with the delicate political triangle linking relations among Washington, Moscow, and Peking.

"We would hope to separate commercial and political relationships," Dr. Lesher told Ambassador Han of the Chinese foreign ministry, "but realistically we know that they are mixed."

Sensitive relationships

The sensitive relationships have been complicated by the Kremlin's invasion of Afghanistan last December and the installation of Babrak Karmal's pro-Soviet government in Kabul. That aggression has chilled U. S.-Soviet relations, sidetracking Carter administration efforts to ratify the long-sought SALT II nuclear pact with Moscow. It also triggered a U. S. embargo on grain and technology sales to the Soviets and proposals to increase defense spending.

Strained relations between Washington and Moscow are welcomed in Peking. Since Chairman Mao's final falling out with the Soviets under Nikita Khrushchev's leadership in the early 1960s and strained relations with the Kremlin under Leonid Brezhnev, the Chinese have spouted warnings of Moscow's aggressive intentions.

"Many times the Chinese have warned that the Soviet Union follows an expansionist policy," Ambassador Han says. "Afghanistan proves it."

Guiding axiom

Undoubtedly, Soviet maneuvers in Southwest Asia—especially in the oil-rich Persian Gulf—will continue to draw the United States and China closer together. Defense Secretary Harold Brown's recent mission to China raised the possibility of military ties between the two nations.

And China's modernization efforts will result in increased trade opportunities for American business people, who perhaps should be guided by what the late Chinese Premier Chou En-lai said at the time of the first, tentative diplomatic contacts in the early 1970s: "One should not break the bridge after crossing it." □

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Number 2 of a series.

More and Wiser Defense Spending Favored

READERS who responded to the February Sound Off question favored increased defense spending by about seven to one.

"If we do not begin spending more for defense and begin spending it very soon, we will be too late," says Larry L. Price, president, Bank of Kimberling City, Kimberling City, Mo. "At the present time, we are falling farther behind the Soviet Union daily."

John T. Karban, customer service manager, The Wathen Co., Paxton, Ill., says: "Increased spending on U. S. defense is imperative for our survival as a nation. The more advanced the Soviet war machine becomes, the greater the threat to world peace due to the imbalance of power."

Many readers based their responses on history. "We were not prepared for World War I, World War II, or Korea. We have really never learned anything from history," says R. W. Butler, vice president for finance, Berkmont Industries, Inc., Boyertown, Pa. "I believe for once we should be prepared, and then there may be a possibility that a conflict could be avoided."

Others see increased defense spending as the only way to regain a position of leadership. "It's time we tightened our belts for a while and became a first-rate world power again," says Gary W. Wilson, architect-owner, Webber and Wilson, Rutland, Vt.

"There is no way that the United States can maintain its status as a leader among nations of the world if its military capabilities continue to decline as they have over the past ten years," says Donald B. Hossack, general manager, O'Malleys Building Materials, Mesa, Ariz.

But those who voted against increased defense spending were not voting for a weaker position. Many agree with Don Kellet, manager, Dealers Electrical Supply, Inc., Kerrville, Texas. "Cutting out the waste in an already inflated budget would more than keep us competitive with the Soviet Union. The misuse of tax dollars is an out-and-out sin, and our government is the sinner." Frank E. Williams, Jr., a consulting engineer from Falls Church, Va., says: "More spending is not necessary, only wiser spending."

William C. Shuck, branch manager, Don S. Grove Co., Baltimore, Md., says: "Increasing defense spending will create more jobs . . . reduce welfare . . . and broaden the tax base."

"We have plenty of defense hardware," says John B. Henty, professional relations manager, General Electric Co., Charleston, S. C. "Introduce efficiency and productivity."

Elvin J. Holmes, owner, Cougar Custom Campers, Muskegon, Mich., would go a step farther. "Our defense expenditures could actually be cut and our defense posture could be improved by reduction of ineffective management and rampant waste. Spending money does not always make the hoped-for improvements."

Among those voting affirmatively, a majority made increased spending conditional upon certain policy changes. "Giveaway programs, both domestic and foreign, should be slashed to the bone until this nation's defense capability at least equals that of all foreign powers," says Wallace C. Cooley, vice president and general manager, K & K Truck & Trailer Parts, Inc., Ocala, Fla.

R. H. Claypool, Jr., president, Rogers Delinted Cottonseed Co., Waco, Texas, believes defense funds "should be carefully spent to get the most for the money." Also, areas of waste should be eliminated through more careful auditing procedures. E. E. Greene, sales manager, Schott Optical Glass, Inc., Duryea, Pa., says: "Increased spending must be linked to strong and consistent foreign policy." John Harper, sales manager, Harper Sales, Inc., Avon, N. Y., would spend more, "provided it is spent for a better defense, not offense."

Some of those who voted against increased spending also made their votes conditional. Financial analyst Jan Harrison of Chicago, Ill., would agree to increased defense spending "only if some other government spending were correspondingly decreased."

Other suggestions from those who voted against further spending included: "Spend more time learning how to get along with Russia and balance our federal budget," says John M. Cannon, a sales executive from Hightstown, N. J. " . . . Take the initiative to de-escalate the arms race," says Glen Bruce, manager, Federal Land Bank Association of Spokane, Spokane, Wash.

Stuart Okun, vice president of Okun Furniture Co., Springfield, Mass., says: "Our ability to kill everyone in the world 40 times over is sufficient."

But those who voted for more spending think that something more is needed. David H. Boggs, sales manager, Lyon Conklin & Co., Inc., Washington, D. C., says simply: "Recent events say it better than any words I can write." □

VIEWPOINT

In a Stormy Economy, Gold Is the Investor's Ballast

By James E. Sinclair

PHOTO: BILL STRODE—WOODFIN CAMP, INC

Gold refuses to disappear from the world monetary system despite the view of Lord Keynes that it is a barbaric relic. It is also an impregnable storehouse of wealth and a solid investment in future buying power for the security-minded.

GOLD prices fluctuate from $500 to $800 an ounce, yet it is essentially a worthless commodity. Its real utility value is so slight that most of the gold ever mined is still in existence. But gold is also a sensitive barometer of the world's anxieties and a reliable storehouse of wealth.

Most of us seek to accumulate wealth to provide for a secure retirement, to serve as a cushion against misfortune, and to protect our heirs. When men and women find their lives disrupted by political instability or material shortages and their currencies eroded by inflation, they inevitably turn to gold as a refuge against financial insecurity.

While the price of gold has risen sharply in recent months, what gold really does is maintain its buying power through booms and recessions, wars and crises, in times of product shortages and physical abundance. During the administrations of George Washington, Abraham Lincoln, and President Carter, an ounce of gold would buy a man's suit of good quality. During the Depression, 200 ounces of gold would buy a substantial family house in a U.S. city or suburb. It still will. Allowing for short-term fluctuations, an ounce of gold has long maintained a rough price parity with 16 barrels of crude oil.

For almost half a century, governments have been trying to drive gold out of the monetary system. Lord Keynes called gold a barbarous relic, and the Keynesians who have so strongly influenced government policy in the United States and Europe tend to agree. For much of the 18th and 19th centuries and into the 20th, the British pound, backed by gold, was a stable and reliable medium of exchange for the world. After World War II, the U.S. dollar, also backed by gold, served the same function.

Since World War II, many factors have stoked U.S. and world inflation. Deficit financing of the Vietnam war was an enormous blow to the strength of the dollar; costly social programs added their burden and so did the 18-fold increase in the price of crude oil. But conditions were undoubtedly aggravated by the lack of gold to back the major currencies and brake the growth of national money supplies.

Gold imposes a form of discipline on governments. Because of the scarcity of gold and its cost of production, supplies cannot be expanded rapidly. When gold and money are interchangeable at a fixed rate, the growth of the money supply is limited. Such discipline disturbs politicians intent on spending and spending.

Won't go away

Despite the efforts of politicians, gold refuses to disappear from monetary systems. Switzerland guarantees its franc with a fixed quantity of gold and, better than almost any other free nation, has maintained both a sound currency and low unemployment. The new European currency unit has indirect backing in the gold reserves of its sponsoring countries. Elsewhere, the coinage of gold is reappearing. South Africa's Krugerrand and Canada's Maple Leaf, each containing one ounce of pure gold, are examples, and other nations now offer or plan to offer new gold coins.

The recent resurgence of interest in gold is reflected in the latest price quotations on the morning radio and evening television news shows. Nourished by public involvement, gold trading has soared to new high volumes in New York, Chicago, Zurich, and Hong Kong.

A long-term investor in gold has

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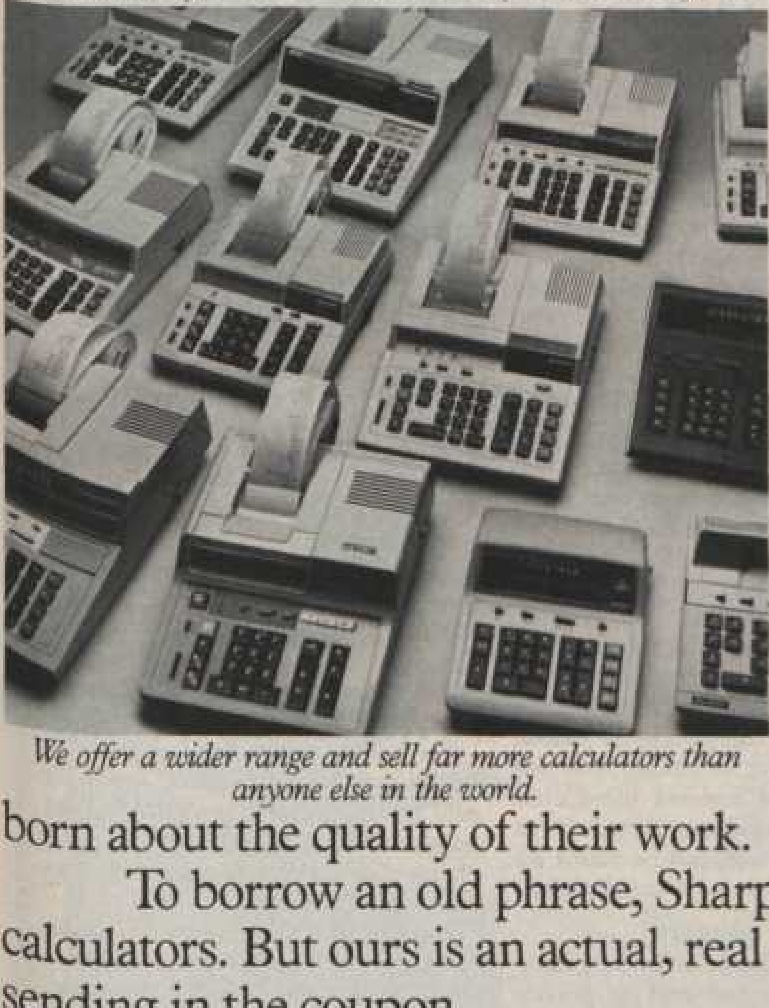

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*Source: Fortune 500 1977

shown a handsome profit in terms of the currency of the day, but more to the point, his savings have held their purchasing power, and that, rather than the allure of quick profits, explains the basic appeal of gold.

Safe in Switzerland

Gold's recent climb from $300 an ounce was largely triggered by enormous purchases of the real metal, not just contracts and warehouse receipts, by Middle East interests operating through West Germany's Dresdner Bank.

While no one goes on record to explain these purchases, it seems clear that some governments and extremely wealthy individuals were converting large volumes of oil revenues from dollars, other local currencies, and fixed investments into gold. If war and revolution descend on the Middle East, the world will suffer incalculable damage, but a great deal of private and public wealth from the region will rest safely in vaults in Zurich and London.

Because these purchases were huge by all historical standards, they forced the price of gold up all around the world. Gold, once again, is reacting as a barometer of anxiety.

Until the 1970s, gold did not loom large in the thinking of U. S. business people and investors. Americans accepted with few complaints the ban on private ownership of bullion that was imposed in 1934 and not lifted until 1974. For them, security rested not on gold in the mattress but on stable political institutions and a sound dollar.

Equated with security

Others viewed gold differently. Indian families hoarded gold to provide dowries for their daughters. Chinese merchants and Arab traders rightly preferred gold to their local currencies. Europeans, battered by centuries of wars, revolutions, and currency devaluations, stored away as much gold as they could afford.

In the conviction that gold equals national security, the French government still carefully regulates the import and export of bullion. Today, U. S. investors are following the European view of gold as a symbol of financial stability and a component of almost any diversified portfolio of investments.

Like any other commodity traded on a free market, gold rises and falls in the short term. Because of its historic record of retaining value over long periods of time, it is essentially a conservative and even a defensive investment. Almost any investor can sensibly and profitably allocate ten percent of his portfolio to gold and gold-related investments.

James E. Sinclair says the price of gold may fall, but only if there is political stability, low inflation, and prosperity.

For the security-minded, bullion coins, those that derive their value from their gold content rather than their rarity, provide an entry into the world of gold. The coins are easy to buy, easy to store, easy to sell, and offer a reasonable prospect of long-term appreciation.

For investors more comfortable with traditional common stocks, shares of gold mines in North America and in South Africa offer, with some risk, dividends and prospective appreciation as the price of gold rises.

For the well financed and venturesome, gold futures trading can produce spectacular profits, but at serious speculative risk.

Basically, a continuation of inflation and no end to the tensions and dangers that afflict the modern world will support a long-term bull market in gold.

But the metal could lose some of its attractiveness if the world enters a period of political stability, low inflation, and economic prosperity. In that unlikely circumstance, the price of gold would fall, but other components in a well-designed portfolio would soar in value.

For the long term, gold is an anchor to windward, not the whole ship. □

MR. SINCLAIR *is a partner in James Sinclair and Co. and James Sinclair Commodities, firms that specialize in investments in precious metals and foreign currencies. He is the author of* How You Can Profit From Gold.

The Sperry Story
As Told by J. Paul Lyet

By Tony Velocci

LIFE IN BREWERYTOWN, a rundown section of North Philadelphia where J. Paul Lyet grew up, was decidedly no picnic.

His neighborhood, named in recognition of the Bergdoll brewery, was tough and poverty-stricken. It warped him, he says today. "You never lose the scars of not having enough money; you always remember what it's like to be poor. The work ethic becomes ingrained and motivates you to succeed."

Swimming—he was one of the best backstroke competitors in Philadelphia—a local boy's club, and a serious attitude in school provided a healthy and constructive escape from his otherwise grim boyhood environment.

Belief in hard work

In his first job after high school, young Lyet wrapped suitcases for 20 cents an hour at a leather goods manufacturer. At night, he attended the University of Pennsylvania's Wharton Evening School of Accounts and Finance and majored in accounting. Before graduating in 1941, he worked at a succession of jobs, including selling real estate, all of which reinforced his capacity for hard work and honed his determination to excel.

Not much has changed for J. Paul Lyet in the past 40 years. He still is motivated by the same desire to succeed and is convinced that hard work, with a measure of good luck thrown in, is the surest way of getting ahead. Today, Mr. Lyet is chairman and chief executive officer of Sperry Corp., one of the world's largest industrial enterprises.

Long before he ever became a candidate for Sperry's top job, Mr. Lyet had earned a name for his financial expertise. After graduating from Wharton, he took his first accounting job with Ernst and Ernst in Reading, Pa. Edward G. Everist, then senior accountant who coached Mr. Lyet for his certified public accountancy examination, recalls: "I never met anybody who had the eagerness to learn that he had."

One of the accounting firm's clients was New Holland Machine Co., a small, financially troubled operation whose sales of farm machinery were less than $150,000 a year at the time. When New Holland had to submit a budget to float a $150,000 loan from a Philadelphia bank—the partners neither had nor knew how to prepare a budget—Mr. Lyet agreed to develop one from scratch, enabling New Holland to obtain the cash.

Advanced to parent company

A job offer soon followed, and in 1943 Mr. Lyet started with New Holland as controller and a director. New Holland was acquired by Sperry in 1946, and Mr. Lyet advanced from chief financial officer of New Holland to vice president and general manager for North America to president, and then in 1970, executive vice president of the parent company.

In succeeding years, Mr. Lyet drew widespread attention for his thoroughness. Recalls Harry F. Vickers, who was named chief executive officer after Sperry merged with Remington Rand Corp. in 1955: "He was an outstanding talent—very alert, very smart—a very competent manager."

Sperry Rand was later shortened to Sperry, which today operates through five major divisions. Sperry Univac ranks second as a major worldwide manufacturer and marketer of computer systems. Sperry New Holland is the largest specialized farm machinery producer in the world. Sperry Vickers is the world's largest manufacturer of hydraulic products and systems. Sperry Division is a principal supplier of guidance and control equipment and systems. And Sperry Flight Systems produces flight and guidance and control instruments.

Committed to communicating

Since Mr. Lyet became chairman eight years ago, Sperry's assets have almost tripled to more than $5 billion. Moreover, during fiscal 1979 Sperry achieved its seventh consecutive year of record earnings, attaining management's foremost financial objective of consistent annual increases in earnings per share.

Along with financial wizardry, Mr. Lyet has an intense interest in communications—and vigorously encourages programs to implement that often undervalued corporate function.

Early in his career at New Holland Machine Co., he edited an employee newsletter in addition to handling

Effective communication, regardless of its medium, has a high priority with J. Paul Lyet, chatting with Richard R. Mau (left), vice president, corporate and government relations, and John A. Houston, senior vice president, law.

company finances. "The company was so small that the machine shop was located just outside my office; I knew half the guys," says Mr. Lyet. "That made for a very wholesome relationship.

"But as we expanded, folks began to drift apart, and we had a real task to try to maintain the rapport we had established. That's when I started the first company newspaper with the help of a local editor.

"Employees who are not communicated with generally feel they've got to have some kind of substitute," says Mr. Lyet. "If you don't keep them informed, then they're going to want a union to do it." Fewer than 15 percent of Sperry employees belong to a union.

Films for employees

Prominent in the corporation's comprehensive communications program are the films in which Mr. Lyet appears and which he moderates. They are produced in six different languages and are shown to every Sperry employee worldwide.

The theme of last year's celluloid report to employees was what leads up to and follows a Sperry sale. "You can't possibly know how important you are to this company," Mr. Lyet told all employees. In another film on communicating itself, he says convincingly: "Effective communication is the key to modern management."

Sperry is now conducting one of the most aggressive corporate identification programs in the country. The television commercials and advertisements in newspapers and magazines state: "We understand how important it is to listen."

"We struck paydirt with this theme. We hit a responsive chord in the human psyche that was far more widespread than we anticipated," says Mr. Lyet, who stars in one of the commercials. "I've never seen anything like the thousands of responses we have received.

"Each of the spots that kicked off the campaign was different. Some highlighted disastrous moments in American history such as the sinking of the Titanic, which was partially a result of poor listening."

Among the benefits Sperry hopes to gain, Mr. Lyet explains, are further improvements in employee attitudes and customer relations, credibility with suppliers, and more business. The second phase of the campaign will stress the positive power of listening.

At the end of a typical workday, Mr. Lyet heads for home toting a briefcase containing mail, which he reads "if there's time." He is chauffeured—"it comes with the job"—to his residence in a small New York City suburb.

Home is an old five-bedroom Georgian house. "It's a little drafty, but it's a sturdy place." Mr. Lyet refers to the lot on which it sits as a postage stamp, compared to where he, his wife, Dorothy, and their three sons and three daughters lived, in the Pennsylvania Dutch country when he worked at New Holland.

Realistic about retiring

In just a few years, Mr. Lyet expects to retire. While the past eight years have been exciting, he says, he wants to put his departure into proper perspective.

"There's nothing more ex than an ex-chairman," he says. "I have no illusions that things that happen now will no longer occur when I step down.

"For example, if a light in my office stops working, an electrician shows up right off the bat. I'm a realist, and I know that doesn't normally happen. I also know that the higher you permit yourself to go in your own concept of your posture in life, the harder you may fall.

"So the lesson is, don't lose your perspective, because one day it ain't going to be there. I'm only an employee, and I get paid just like everyone else."

A NATION'S BUSINESS editor visited with Sperry's top-paid—and possibly best-liked—employee in his 43rd-floor office in the Sperry building overlooking New York City's Central Park. Mr. Lyet talked about Sperry's evolution and the politics of export embargoes.

When you became chief executive officer in 1972, what were your specific objectives?

First, I wanted to stress that we were a computer company, plus. I was concerned that we were categorized as a conglomerate, while a smart-talking competitor of ours was characterized as a computer company. We changed our image, and now the computer analysts follow us. At the same time, we have a stake in a lot of other things as well.

The other goal was to achieve consistent increases in earnings per share. The people who pay your salary, the stockholders, are looking for the company to improve earnings and dividends.

A lot of people say it's risky to try and do that every quarter, that year-

to-year consistent increases would be good enough. That's a line of retreat we haven't had to take so far.

Is Sperry going through an evolutionary period?

Yes, in the sense that the company has grown faster than American industry generally. Plus, there have been some rather dramatic changes within the divisions themselves. The product lines have certainly evolved to something quite different than what they were five years ago.

Still, a growth company is always evolving. The parameters of our major operating segments are less fuzzy than they once were. At one time we were into electric shavers and office business machines, but those things are behind us now. Sperry has gone from $1 billion-plus in sales to $5 billion in just eight years.

Where will the corporation be in another eight?

More than double that amount. We should be well over $10 billion in revenues within that period. In January, Sperry's top managers got together to project what the company is apt to look like in 1985. We see some big numbers out there, and they are not just pie in the sky.

For example, we are relatively new in the minicomputer market, and the growth we've already experienced has been far greater than our capacity.

Forty-three percent of Sperry's total revenues are derived from overseas operations. How extensive are your marketing efforts in China?

We have made some spectacular computer sales there, and I hope there will be more. But while we are making sure that we don't miss any bets, we're not expecting the Chinese market to be a mortgage lifter, either. I don't believe that the United States will enjoy the kind of trade we have with the developed countries until this country buys more Chinese goods. Trade will be slow.

Has Sperry been affected by the President's decision to suspend export licenses covering the sale of high technology to the Soviet Union?

Yes, but not substantially. We had two licenses approved for shipment to Eastern countries and one or two to Russia. But, understand, we get 95 percent of the publicity and only five percent of the business in those markets. At meetings with stockholders, employees, and financial analysts, we're frequently asked how we're doing in China or the Soviet Union. Because these nations have such large populations, people figure there has to be a lot of business over there. Fact is, there hasn't been very much.

What do you think about the President's embargo of high technology exports to the Soviet Union?

It was essential. As commander-in-chief, he concluded that the Soviets took actions which, in strategic terms, could threaten us. If the Soviet Union intends to move into the Middle East and disrupt our oil supplies, then the time to call them on it is now. Maybe it should have been done even earlier.

Do you expect the chill in Soviet-American relations to influence Sperry's future business with the Soviet Union?

Sure. Some people say that we never should have done any business with the Soviets in the first place. Others say that we ought to complain about the President's embargo.

We conduct our business in the only way we can—in absolute harmony with the government. We're not running a state department here. If the government says we shouldn't ship, we don't ship.

Do you favor the government propping up financially ailing businesses such as the Chrysler Corp?

I hate to see us going down the road where the government is going to bail out every company that gets into financial difficulty.

I could be sanctimonious and say no way. But from a practical standpoint, there was a tremendous amount at stake in that particular enterprise. Giving Chrysler some kind of government assistance to work its way out of trouble was probably correct.

These situations have to be decided on a case-by-case basis. I'm rooting for Chrysler to make it, and I think everybody else in the country is, too, including its competitors.

Of all the management decisions you've made, is there any one you wish you had handled differently?

I think my worst mistake was assuming that company policy on business ethics was clearly defined for employees. As soon as I became chairman, I should have issued a memorandum on the subject so that there would be no doubt. Some years back, we learned that some of our people were making payments abroad to secure business. I immediately reported this to the board of directors, and we hired outside counsel to investigate.

We corrected the situation, but those disclosures were a crushing blow, the most difficult moment in my business career. They didn't do business any good, and they didn't do us any good. We knew the only way to get the message across was to have somebody violate the policy after we spelled out the code of business ethics. Sure enough, somebody did. He was fired.

What asset do you value most in a manager?

Judgment. From good judgment comes good performance. A person with good judgment will conduct himself in a thoughtful, intelligent manner calculated to succeed. And the one significant test of a good manager is consistent performance in the attainment of goals.

What upsets you more than anything else on the job?

I get annoyed when Sperry is unfair-

Modest and even-tempered, J. Paul Lyet attributes his rise to the top to lots of hard work and a measure of luck.

Sperry Univac, one of Sperry's five major divisions, ranks second as a major worldwide manufacturer and marketer of computer systems. William Ward, a computer programmer, briefs J. Paul Lyet on a Sperry computer program.

ly accused of something, say by a government official or by a newspaper—there isn't a thing you can do about cheap shots.

I was in this job one month when Sen. William Proxmire (D.-Wis.) attacked Sperry in the newspapers. His source of information was a former Army officer and employee of Sperry who criticized the way we were performing a defense contract. It turned out he was a malcontent, although we didn't know that at the time. His information was distorted, but the damage to Sperry was done.

Generally, how do you feel about the media's treatment of business?

It's improving. If you don't want to take the time to explain your position to reporters, then you can expect problems. Don't wait for them to come to you, don't be secretive, and lay things out. If you don't level with the media, then you get what you deserve.

Are many companies guilty of not leveling?

Yeah, I think so. There are those that say the only thing you have to do is keep the earnings moving along and everything else will take care of itself; to hell with the press. I don't believe that. You've got to work hard to build good press.

How would you evaluate business communications in general?

People in business leave a lot to be desired when it comes to writing effective memos and speeches. The best writers in a corporation are the people in the public relations department.

Whenever I see, "I want to take this opportunity," I cringe. Maybe I'm just a compulsive editor.

At one time you seriously considered journalism as a profession, didn't you?

Yes. Of all the courses I took in high school, the one I thoroughly loved was literature. I loved to write short stories and compositions. It was drivel, but I liked it. Each word was like a new discovery. I found that writing amplified my capacity for expression.

Unfortunately, I didn't see how I could make any money at it. Some of my friends were considering accounting as a career at the time, and their influence persuaded me to choose that profession over journalism.

How do you relax?

Bird hunting, a new hobby my predecessor introduced me to. I freeze and eat what I kill. My wife shoots, too.

I also enjoy sailing. We have a Lightning. The family also charters larger boats.

I still love swimming. I am a member of the New York City Athletic Club. When I don't have luncheon appointments, I go there and swim. I used to jog, but my son, an orthopedic surgeon, is very much against it. He says it's hard on the bones.

Your retirement is two years away. How do you feel about Sperry's mandatory retirement age of 65?

I think it's the right time. A bright, younger person invariably would do a better job, and if not, then I should be faulted for not having done the job I should have.

An important part of my job—and it's on my mind a lot—is making sure there are people to carry on this business and ensure its success.

What have you done about your successor?

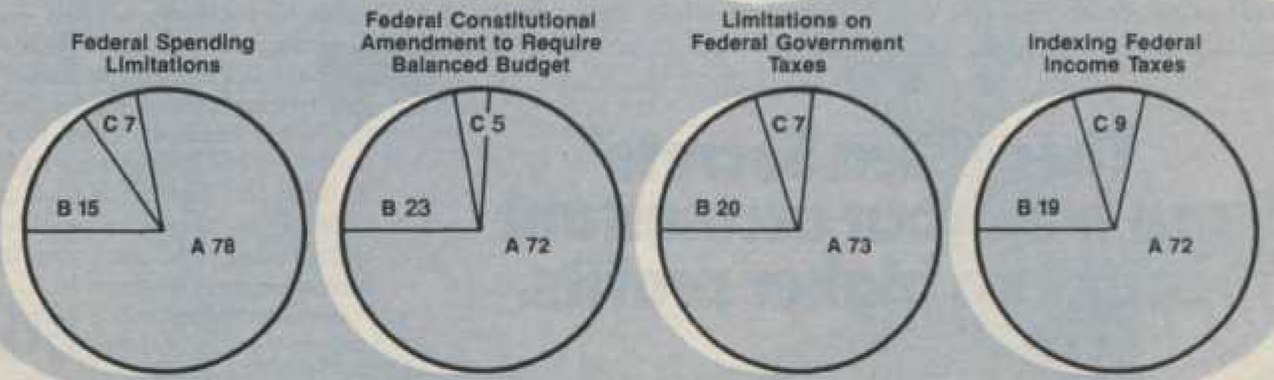
We created the office of chairman, which involved making some important personnel adjustments, and the president will be retiring this spring. The net result is that at the end of a year we shall have two seasoned, healthy, aggressive, enormously competent executives who have experience in running everything at Sperry.

Our only job will be to decide which one should be the chief executive and which one the chief operating officer. They have been attending the board meetings and accompanying the board members on plant visits.

The idea is that the board should feel confident with them, so that when it's bye, bye, Paul, it's hello, somebody else. I consider that leaving with class. □

To order reprints of this article, see page 56.

Time to Tether U.S. Spending



MOST BUSINESS LEADERS strongly support measures to curb federal government spending and taxation, according to the latest quarterly survey of business confidence conducted by the U. S. Chamber Survey Center and the Gallup Organization, using a scientific sample of U. S. businesses by size, region, and industry.

Seventy-eight percent of the executives who responded favor legislation to limit federal spending to less than 21 percent of the gross national product in fiscal 1981 and 20 percent of GNP thereafter. At the same time, 73 percent support a similar law to limit federal taxation. As a further constraint, 72 percent want an amendment to the Constitution that would require the "federal budget to be balanced each year, with spending limited to no more than revenues, except in wartime or unless a two-thirds majority of Congress approves a deficit."

The high proportion of business leaders favoring limits on federal spending and taxing may reflect the fact that three out of five executives expect the government to do a poor job in fighting inflation, which is still viewed as the nation's number one economic problem. The survey results do not suggest any improvement in inflation rates over the next year or two. To the contrary, those surveyed now think there is a 74 percent chance of double-digit inflation during the next 12 months and a 69 percent chance during the next two years. The percentages are up from 71 and 64 percent three months ago.

To increase productivity and help offset inflation, various forms of corporate tax relief have been advised to stimulate business investment in new plant and machinery. The survey asked executives to assume that Congress would enact a $15 billion business tax reduction. Then they were asked to rate which one of five types of tax reduction would have the greatest

Disincentives to Expanding Exports or Entering the Export Market

	Very/moderately important factor	Minor/not a factor at all
Foreign tariff barriers	*67%	30%
Foreign nontariff barriers (import licensing, product standards, etc.)	61%	35%
Taxation of U. S. residents overseas	36%	62%
U. S. export controls	31%	66%
Foreign Corrupt Practices Act	31%	67%
Unavailability of adequate export credits (financing)	30%	67%
Antiboycott regulations	25%	72%
Inadequate information on foreign market conditions	24%	73%
U. S. antitrust restraints	23%	75%
Inadequate information on how to export	12%	85%

*The percentages are based only on those firms that now export or are considering entry into exports.

Firms That Would Raise Investment With $15 Billion Tax Relief

	Next two years	Next three to five years	More than five years
Corporate tax rate reduction	29%	29%	30%
Faster depreciation write-offs	23%	32%	27%
Capital gains tax reduction	7%	11%	13%
Investment tax credit increase	24%	19%	11%
Investment credit for structures	10%	12%	11%
None will affect investment plans	15%	10%	10%

impact on increasing their firms' investments.

The two top choices over the next two years were a reduction in the corporate tax rate—29 percent—and an increase in the investment tax credit—24 percent—followed closely by faster depreciation write-offs—23 percent. Over the next three to five years and beyond five years, the two top choices were a reduction in the corporate tax rate and faster depreciation write-offs.

Overall, 39 percent of those who responded think a $15 billion business tax reduction would increase their firms' investment by five percent or more during the next two years. The figure increases to 51 percent over three to five years and to 56 percent for more than five years.

Business people continue to be pessimistic about the probability of recession, assigning a 69 percent chance of recession within one year and a 73 percent chance within two years. These figures are largely unchanged since last autumn, but are much higher than a year earlier when these probabilities were 50 and 63 percent.

Also remaining static was the percentage of business executives who expect that wage and price controls will become mandatory during the next two years. However, the proportion who think the present control program will be expanded to include credit declined from 52 percent last fall to 39 percent, but the survey was taken before recent discussions of selective credit controls.

Indexing found support among business leaders. By more than a three-to-one margin, they favor a law to index federal income tax rates. Several states have already adopted state income tax indexing so that taxpayers do not have to pay taxes at higher rates just because inflation pushes them into the higher brackets. Three fourths of the executives also support legislation to limit the rise in indexed government payments such as social security and pensions to no more than the rise in average weekly wages.

Business expectations about sales and profits during the next 12 months and over four years remain unchanged since the last quarter and are less optimistic than those expressed a year ago. Similarly, expectations about future common stock prices remain about the same, with a slight increase in optimism during the next 12 months.

Executives are less optimistic about the U.S. dollar. The question was: "During the next 12 months, do you expect the U.S. dollar in relation to most other currencies to decline in value, stabilize, or rise in value?"

	Fall 1979	Winter 1980
Decline substantially	6%	4%
Decline somewhat	35%	42%
Stabilize	40%	33%
Rise somewhat	17%	15%
Rise substantially	*	*
Don't know	2%	5%

*Less than 0.5 percent

In the international arena, 38 percent of the executives' firms are involved in exporting now, and another two percent are considering entering the export market.

Of those exporting or considering it, substantial majorities view foreign tariff and nontariff barriers as very important or moderately important disincentives to expanding exports. Taxation of U.S. residents overseas, U.S. export controls, the Foreign Corrupt Practices Act, and unavailability of adequate export credits are among other important factors inhibiting exports. □

PHOTO: LAWRENCE HEDGES—UNIPHOTO

Union leaders fear that OSHA would be excluded from work sites until after an injury occurred.

Will Reform Be the Death of OSHA?

COMPLETE the following sentence. The Occupational Safety and Health Improvements Act of 1980 is intended to:

A. Save the Occupational Safety and Health Administration.

B. Destroy the Occupational Safety and Health Administration.

The disparity between these answers is a measure of the controversy engendered by a bill, introduced by Sen. Richard S. Schweiker (R.-Pa.) and five cosponsors, that would exempt about 90 percent of the nation's workplaces from routine OSHA inspections.

Sen. Schweiker, a supporter of the Occupational Safety and Health Act of 1970, says the law has failed to produce demonstrable benefits in workers' safety, and OSHA, its enforcement arm, has become "probably the most despised federal agency in existence."

The way to correct these problems, he says, is for the government to limit its "policeman's role to situations where it is really needed to deter ... hazards and to adopt a new posture of stimulating employer and employee cooperative self-initiative to improve workplace safety and health."

The bill would exempt from routine OSHA safety inspections those workplaces with a good safety record for the preceding year. A good record means no deaths and a minimum number of workdays lost because of injuries. The standard would range from none for workplaces with 24 or fewer employees to two per 100 employees for workplaces of 1,000 or more. Eligible workplaces would be identified by state workers' compensation agencies or, where that isn't possible, by company affidavits.

Workplaces with advisory safety committees, advisory consultation programs, and good safety records would be exempt from most civil penalties for violation of OSHA safety standards. Penalties for companies with the advisory programs but without good safety

records would be limited to $700 for serious violations and $300 for others. The agency says it now inspects two to three percent of the nation's workplaces per year.

Joining Sen. Schweiker as a cosponsor of the bill is Sen. Harrison A. Williams, Jr. (D.-N. J.), who introduced the Occupational Safety and Health Act of 1970. Sen. Williams is chairman of the Senate Labor and Human Resources Committee, which will consider the bill.

Targeting danger

Sen. Williams does not agree that OSHA has been ineffective, but he does believe that "limited resources should be effectively targeted to the most unsafe workplaces." He also notes that the Schweiker bill avoids arbitrary exemptions unrelated to a company's safety record and provides a number of safeguards for employees.

The other Senate cosponsors are Frank Church (D.-Idaho), Alan Cranston (D.-Calif.), and Orrin G. Hatch (R.-Utah). Sens. Cranston and Hatch are on the labor committee, and Sen. Schweiker is its ranking minority member.

Another committee member, Sen. Gaylord Nelson (D.-Wis.), withdrew his sponsorship of the bill because under its terms, he said, he was convinced that "in many cases, hazardous workplaces would be exempt" from OSHA authority.

Similar fears are expressed by Eula

PHOTO: UNIPHOTO

Sen. Schweiker thinks that labor unions have decided to "make a holy war" over his bill to reform OSHA's operation.

Bingham, OSHA administrator, who is worried that "under this proposal, OSHA's presence would generally be permitted only after injury or death had occurred."

Union reaction includes five specific objections drawn up by the AFL-CIO executive committee. It says the bill:

- Takes away the statutory right of workers to safety inspections;
- Erodes OSHA's goal of preventing injuries before they occur;
- Assumes incorrectly there is a valid statistical method for identifying safe workplaces;
- Assumes mistakenly that employer motivation to observe OSHA standards will be undiminished by exemptions; and

OSHA Expands to Federal Agencies

Whatever it is that OSHA is doing for workers in private industry will now be done for—or to—the agencies of the federal government, according to an executive order issued by President Carter.

The order requires the agencies to comply with the same safety and health standards applicable to private sector employers and establishes procedures for inspections and for protection of employees who complain.

There is one significant difference, however. When an OSHA inspector finds a private employer in violation, a fine may be assessed.

When the inspector discovers a federal violation, "he shall promptly issue a report," the order states. There is no mention of fines or other penalties.

At a news briefing on the order, OSHA's administrator, Eula Bingham, described the worsening federal accident record. "From 1973 to 1977," she said, "the number of on-the-job fatalities in the federal work force increased ten percent while the size of the work force grew by only four percent. Injuries and illnesses actually increased by 51 percent during this period, with lost workdays increasing 133 percent."

Military and legislative branch personnel are still unprotected from job-related hazards, however. The executive order exempts the military, and Congress is outside OSHA jurisdiction.

• Places false reliance on voluntary compliance.

In a letter to union members, Ray Denison, director of the legislation department for the AFL-CIO, calls the bill devastatingly destructive and fears that it may set "a precedent for exempting so-called safe workplaces, which would soon spread to health and mine inspections."

Minor reservations

Other union comments are more extreme: "Potentially deadly for workers ... the most serious legislative attack ... would turn OSHA into a coroner's office ... gives employers a license to maim and kill ..."

Sen. Schweiker calls such statements a smoke screen and concludes that "labor has decided to make a holy war" out of his bill.

Business reaction is generally favorable, with minor reservations. There is unanimous praise for the performance orientation of the bill and for the principle of targeting enforcement resources where they are most needed.

OSHA's adversarial approach has been tried for almost a decade, and the statistics show that it hasn't worked, says Robert T. Thompson, a South Carolina attorney who is treasurer of the Chamber of Commerce of the United States and chairman of its labor relations committee.

"Employers," he says, "need to be able to concentrate their efforts on preventing injuries, rather than preventing citations."

"We're in complete agreement with the intent of the OSHA act, but the results have been dismal," says Theodore M. Wire, manager of occupational safety at Deere & Co., Moline, Ill. He sees the Schweiker bill as a step in the right direction, but says OSHA should expend more effort learning where and why injuries occur.

"They haven't identified the problems properly," he says, adding that the agency should aim its rules and enforcement activities at the problems it can document.

The Schweiker bill is "one of the most significant pieces of legislation since OSHA," says James J. Cicchetti, assistant director of corporate risk management for Borden, Inc., Columbus, Ohio. But "there is still a lot of work to be done on it." He worries about some of the bill's definitions. "Suppose an employee dies of a heart attack while at work. Would such a nonjob-related fatality bar a company from qualifying for an exemption?" he asks.

Ned K. Walters, corporate safety director for E. I. Du Pont de Nemours Co., Inc., Wilmington, Del., thinks that "focusing OSHA's resources on the most serious safety problems makes sense for employees and for taxpayers." But he, too, has some reservations. He wants staff safety experts to qualify as consultants, and he doubts that they would under the present wording of the bill. He also feels that "there are better ways than employer-employee advisory safety committees to involve employees in the safety effort."

Any real relief?

Charles R. McDonald, president of McDonald Equipment Co., Willoughby, Ohio, and chairman of the Cleveland Council of Smaller Enterprises, questions whether the bill offers business any real relief. He points out that a company could fail to qualify for an exemption because of an accident that is entirely the fault of the employee and

could not have been prevented by the employer.

Some business analysts complain that the Schweiker bill's incentives for improvement would not operate equitably from one industry to another. Businesses that are inherently safe, they say, would have little reason for added effort. On the other hand, companies in inherently dangerous industries might improve their safety records substantially and still fall below the limits for an exemption.

Mr. Cicchetti of Borden disagrees with that line of reasoning. The most dangerous industries usually have good safety programs, he says, not because of OHSA, but because it is to their advantage to encourage safety.

No state data

A more serious problem with the bill has been identified by the AFL-CIO, which points out that states vary greatly in their methods of collecting injury statistics. "No state workers' compensation agency currently collects injury or lost workday data by workplace," the federation says.

The bill defines workplace as "a single physical location where business is conducted ... except that for employers engaged in activities which are physically dispersed, the term ... includes all locations at which such services are performed. Where distinctly separate activities are performed at a single location, each activity shall be treated as a separate workplace."

The state reporting problem will have to be resolved, says Mark A. de Bernardo, a labor relations attorney with the U. S. Chamber. "I think everyone concerned realizes that there will be some changes in this bill in committee," he says.

Overreaction

However, complaints that OSHA can be kept out of the workplace until after an injury occurs are dismissed by Mr. de Bernardo as an overreaction. Under the bill, an employee safety complaint to OSHA would cause OSHA to ask the employer for assurances that the problem has been corrected. If OSHA were not satisfied with the employer's response, an inspection could take place.

Will the bill pass? "The votes are there to pass it on the floor," says Mr. de Bernardo, who foresees a union effort to keep it bottled up in committee. That may not be easy given the number of high-ranking committee members who are cosponsors. □

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Campaign '80:

The State of Political Parties Is a Somewhat Shaky Proposition

By Vernon Louviere

ARE AMERICA'S two major political parties—both more than a century old—on the road to oblivion?

The answer lies with the parties themselves and how effectively they can deal with the steady erosion of influence that has become so marked in recent years.

Many symptoms are visible:

- Fewer Americans are turning out to vote.
- More voters call themselves independents, disdaining affiliation with either the Democratic or Republican parties.
- Ticket-splitting is on the rise.
- Office seekers at every level are turning in increasing numbers to television and campaign consultants and away from party professionals.
- Single-issue, direct-action groups—ranging from pro and anti-abortionists to feminists to gay liberationists—are looking after their own narrow interests and ignoring the broad-based goals set by the national parties.
- Federal campaign spending laws are driving a wedge between candidates and political parties by limiting party activity and the amount of contributions to candidates.
- The proliferation of presidential primaries is encouraging candidates to function within mini-parties of their own creation.
- Among institutions such as Congress, the Supreme Court, and the presidency, political parties rank lowest as far as performance is concerned, according to polls.

"I predict that if the trend toward noncitizen participation in politics is not reversed in the next ten to 15 years, our democracy will begin to flounder," says Harold Pachios, who just stepped down after four years as chairman of the Maine Democratic Party.

The decline in party influence parallels the growing disillusionment of Americans with the performance of their government. For example, a poll taken in 1958 asked: "Do you trust the government to do what is right?" A total of 73 percent said they did "most or all of the time." But 20 years later, 68 percent answered the same question with "none of the time or only some of the time."

Recent presidents—both Democrats and Republicans—have done little to bolster the sagging prestige and effectiveness of their parties, even though they are the titular heads of these political structures.

Power usurped by TV

In earlier times, a president relied heavily on his party to communicate with the citizenry. Today, a president turns to television, reaches an audience of millions instantly and simultaneously, and all but ignores the party.

In reality, the Democratic and Republican parties enjoy real exposure to the people only once every four years

PHOTO: THE BETTMANN ARCHIVE, INC.

CAN THE BODY CAST OFF ITS SHADOW?

"Ring out the old, ring in the new" was the caption to this cartoon asking if Tammany Hall could rid itself of the influence of the legendary Boss Tweed.

The Old Guard Seeks a New Image

"We're out of gas," says a man in a television commercial who looks mightily like one of Washington's most powerful Democrats—House Speaker Thomas P. O'Neill, Jr.

Actually, he's a professional actor in a Republican commercial.

The Republicans are spending $5 million on TV ads to try to end 25 years of Democratic control of Congress and to bolster the image of the Republican Party.

"The objective of this media plan is to reach the millions of young, uncommitted Americans who feel that the government has let them down," says Rep. Guy Vander Jagt (R.-Mich.), who is chairman of the Republican Congressional Committee.

Democrats, on the other hand, have no plans to take their case to the people via television. Individual candidates, however, will rely heavily on TV.

A Democratic spokesman says his party will spend about $4.5 million on voter registration and grass-roots programs.

"We don't see how the Republicans will get their money's worth out of this television campaign," he asserts.

"They are trying to put a message across that voters will have forgotten by the time the election rolls around in November."

at the national political conventions, where they select their presidential standard-bearers and write party platforms. Even so, the circus atmosphere at some recent conventions, played out on the television screen in almost every household in the land, bolsters voter skepticism on picking presidents.

Political professionals have a divided view of the parties: Some see them going down the drain, given the diminishing role they play; others think they are just beginning to mount a comeback. Few, however, challenge the widely held view that political parties have simply lost their clout.

The unexpectedly large turnout of voters in party caucuses and primaries in Iowa, Maine, New Hampshire, Massachusetts, and elsewhere is attributed by some to the direct efforts of the parties to get out the vote and revive a sense of commitment. Whether or not this momentum carries over into November is problematical.

Exciting prospects

Republican National Chairman Bill Brock is not among the doomsayers as far as the future of his own party is concerned, although he questions the vitality and survivability of the competitive Democratic party.

"The Republican party is alive, well, and thriving," Mr. Brock says. "Our prospects are exciting. Actually, I think we are more influential now than we were in 1975 and 1976."

More and more voters complain, however, that there is little to distinguish one political party from the other—a contention that dedicated party adherents vigorously dispute.

Still, a favorite quotation of former Gov. George Wallace, who made several strong runs for the presidency without the support of either major political party, is worth recalling: "There isn't a dime's worth of difference between the major parties, in or out of government."

Democratization

However one views the old days of American politics when the parties could unite behind a single candidate usually hand-picked by political bosses, one point is almost certain: The kind of influence wielded by the Jim Farleys, the Mayor Daleys, the Pendergast Machine in Kansas City, Mo., and Tammany Hall will probably not be seen again. The democratization of the parties in particular and the political system in general guarantee that.

Aside from the fact that television—by focusing on the candidate and bypassing the parties—has helped strip the parties of their once-prominent roles, political professionals are also worried that the force and drive of special interest groups may ultimately reduce the parties to little more than social organizations or, at best, to helping office seekers at the lowest levels of the political system.

Mr. Pachios, the former chairman of the Maine Democratic Party, devoted much of his four-year tenure to raising the public's awareness of the need to rebuild the party system in his state.

"Parties are the only buffer we have

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68TH

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PHOTO: BOB McNEELY

Dedicated party workers like these Democrats in Washington, D. C., can expect to spend many hours in meetings.

GOP National Chairman Bill Brock thinks his party is alive and well, though he has some doubts about the Democrats.

between government and narrow one-issue interest groups.

"The political party is the only catalyst we have for distilling and shaping a myriad of conflicting private interests into a cohesive broad-based program for presentation to government.

"In the absence of the political party, coalitions between hundreds of small-interest groups will have to be forged at the legislative level. Italy is bad enough, with 17 political parties; imagine a government trying to function with a thousand parties. It won't work," he says.

Don W. Adams, Republican chairman in Illinois, acknowledges a steady deterioration in the effectiveness of both parties.

He says he would like to see a bipartisan commission of prominent Democrats and Republicans study the problem "to see if it could breathe new life into the parties."

Commenting on the decline in voter participation, Mr. Adams says turnout on election day would be more pronounced if there were more cohesion between political parties.

Less party influence

State Sen. Chester Atkins of Massachusetts, chairman of Bay State Democrats, thinks conditions may change in his state as a result of a new party charter which was drafted to, among other things, restore party influence. He agrees, however, that political parties have lost much of their impact.

"One of the problems is that candidates are taking less direction from their parties. That is part of a long-term trend," Sen. Atkins explains. "Party weakness will continue until candidates start listening to their parties again."

Bill Taylor, chairman of the Florida Republican Party, blames the decline of party influence on the increased education of voters, the advent of television, and the mobility of Americans who no longer remain at or near where they were born.

"The people are better informed," he says. "It's as simple as that. When candidates debate issues on TV in New Hampshire, they affect voters all *over* the country.

"Without question, one of the big problems—and it's a major problem in Florida—is the increasing number of people who refuse to vote. In the final analysis, it doesn't matter whether or not people agree with you; you better see to it that they get out and vote."

Less than half of all eligible voters in Florida take the trouble to register, and of those who do, only about 50 percent actually vote, he says.

"What we have in Florida, then, is a state whose elected officials are selected by no more than 25 to 30 percent of the people," Mr. Taylor notes.

Declining affiliation

In Texas, one of the symptoms of party disenchantment—the growing number of people who call themselves independents—is showing signs of improvement.

Before the 1978 elections—in which the first Republican in Texas history was elected governor—the polls showed that 51 percent of Texans called themselves Democrats, and 20 percent acknowledged Republican ties. The remaining 29 percent labeled themselves independents. After the elections, only 39 percent of those polled owned up to Democratic affiliation, while the Republicans remained constant at 20 percent.

"Last February we took a new poll, and Democratic identification is up to 58 percent," says Billy Goldberg, Texas Democratic chairman. "This would suggest a resurgence in Texas of people who call themselves Democrats."

Mr. Goldberg says the parties themselves share some of the blame for their decline. Among other things, the parties have not aggressively turned out the vote, which, he says, is a major party responsibility.

Fighting apathy

"We have just gone through a young generation that doesn't believe voting is worth its time," he says. "To young people today, it's one bunch of fat cats against another. We are trying to correct this impression, and the place to start is in the schools. We have to get the message across that the democratic system is not going to work if only a few people vote."

Sooner or later, according to the Texas Democrat, political office seekers will come to realize that it's up to

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The Great Debate

The Democratic party is somewhat older than the Republican party, but there is dispute over when the former was actually founded.

A group of Whigs, Free Soilers, and anti-slavery Democrats met in Ripon, Wis., and formed the Republican Party on March 20, 1854.

Some Democrats trace their origin to a coalition of Jeffersonian Republicans who supported Andrew Jackson for President in 1828. Others fix the founding at the Democratic-Republican national convention in May, 1832.

Still others claim the party really began during President Martin Van Buren's administration (1837-41) when Republican was dropped from the name.

Many years later when the late Will Rogers was asked his political affiliation, he replied: "I'm not a member of any organized party. I'm a Democrat."

the party to handle large-scale voter registration, voter education, nuts-and-bolts organizational work, and, most importantly, voter turnout at the polls.

"The importance of political parties will be recognized only when political candidates recognize their role," Mr. Goldberg says. "As long as individual candidates continue to run on their own, parties will not be completely effective."

Billy Goldberg joins other state party chairmen in criticizing presidents for failing to lend the prestige of office to the work of their parties.

No titular heads

"This has been true of presidents for at least 20 years," he says. "Lyndon Johnson might be an exception. He came closest to serving and performing as titular head of the party. Only a president can mobilize party people on behalf of issues, and that's why it is so important that presidents take this responsibility seriously."

Political parties will not regain their lost vigor and stature as long as candidates continue their romance with television and seek out high-priced consultants and managers to run their campaigns.

Among the less kindly things that have been said about consultants is that they are mercenaries, ready to take on whoever has the most money to offer. Those who criticize consultants claim they treat candidates as commodities to be merchandised in the same way that a household detergent is merchandised.

Practically every candidate running for national office—and that includes 535 senators and representatives—relies to some degree on television. The practice is also popular among gubernatorial, mayoral, and lesser candidates. The more money a candidate spends on television, the less likely he is to use the services of a political party.

Perhaps it is not surprising that political parties get short shrift from presidential candidates who perform so many of the chores once done by the parties. Candidates raise their own funds, recruit volunteers, frame their own programs, and select their advisers. The winners come to think they did it all on their own, so their feeling of attachment to a party is minimal.

Herbert E. Alexander, director of

the Citizens' Research Foundation at the University of Southern California, comes down hard on the effect of campaign spending laws on party influence.

No ties to bind

Writing in the American Enterprise Institute magazine, *Regulation*, he says:

"Some provisions of the Federal Election Campaign Act work to separate candidates from political parties. Limits on party activity for and contributions to candidates are imposed, along with limits on individual, interest group, and political action committee activities and contributions, although in different amounts. But the parties should be unrestricted in their ability to help their candidates—and bind them to the party."

He says candidates are not now dependent on parties for their election and are independent to a degree that tends to produce deadlocks on vital national issues.

"The greater the candidate's dependence on the party, the greater the chance to achieve some policy coherence and discipline among candidates and elected officials, the greater the chance of mobilizing party majorities for key votes in the Congress—and, paradoxically, the greater the possible national unity and consensus on some issues.

"It's easier to get two parties to agree than 535 fiercely independent members of Congress. Strengthening the parties could lead not only to more sharply defined policy differences—which is desirable in a two-party system—but also to a greater degree of consensus on certain national issues that transcend party."

Despite all the handicaps under which the two major parties now function, they hold the key to their own survival. Former Democratic chairman Pachios of Maine puts it this way:

"The first problem is that the parties haven't yet realized they are presiding over deteriorating institutions.

"Politics are not as substantive for the average citizen today as they were in the days when you could complain to your precinct captain about uncollected garbage or potholes in the street, and he'd do something about it."

The dilemma for the parties goes deeper than that, of course, and the Maine Democrat explains:

"Now, our political platforms are merely a compilation of single-issue group concerns, such as gun control, farm subsidies, property taxes, etc. Philosophically, we no longer know where we are.

"As a Democrat, I should not necessarily have a different position on nuclear power than my Republican neighbor; yet the two parties think their platforms should isolate these issues and take a position on them.

A system in trouble

"As Democrats and Republicans, we ought not to be concerned with these special interest groups, but with those people who are not members of special interest groups, who are hit by the ravages of inflation and many other problems. So many of the issues parties try to insert in their platforms really don't relate to broad philosophical attitudes.

"Today, political parties are essential to good government. The party system, however, is in trouble. Our most important task is to make sure it survives. And that will happen only if we educate people." □

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#4 Selling on the phone instead of on the road.

Gasoline prices and other travel expenses are on the rise. So sending salespersons out to get small orders from small accounts is a waste of time and money. Our Bell experts can help you keep those customers by teaching you special techniques.

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#5 Improving credit management.

Successful credit management is the key to cash flow. Our Bell experts have programs that expand your market, develop customers, build profits, and give you a better handle on fiscal control. You'll be involved with an overall strategy that will enable you to check the customer's ability to pay on time, calculate marginal risk, and collect overdue accounts.

#6 Turning an inquiry into a sale.

Turning an inquiring prospect into an active customer takes skill that your people might not have.

Our Bell experts can show you how to screen and qualify an inquirer's interest, and then take immediate and competent action. In no time you'll learn how to capitalize on a prospect's interest and need immediately—when he or she is most receptive to your offer. Effectively used, our techniques will help improve your sales AND profits.

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Bell System

An Answer: Control the Uncontrollables

Among most major schools of thought on how to dampen inflation runs a recurring remedy: Control federal payments fueled by the consumer price index

By Barry Crickmer

PHOTO: BRUCE HOERTEL

Paul Volcker, Federal Reserve Board chairman, says the time has not yet come for tax restructuring.

LIKE A DEATH SENTENCE, 18 percent inflation seems to concentrate the mind. That figure, which comes from projecting the 1.4 percent January increase over the rest of 1980, startled public officials. So much so that they have become willing to mention the previously unmentionable in the fight against inflation—limit the growth of the federal budget by cutting those programs Congress prefers to regard as uncontrollable.

These program payments for social security, civil service and military pensions, and various welfare benefits increase automatically according to the rise in the consumer price index for the preceding year.

The first significant sign of possible cuts in such benefits came from James T. McIntyre, director of the Office of Management and Budget, who told a meeting of the National Governors' Association: "I've been saying for two years that the real driving force of inflation is the indexing of the budget."

Subsequently, administration officials have been discussing cuts with influential members of Congress.

The reason for increasing scrutiny of these popular programs can be found in the composition of the federal budget. Direct benefit payments to individuals form the largest single chunk—43 percent—of projected expenses for fiscal 1981. The next biggest category, national defense, is 24 percent. Together, the two account for more than two thirds of the budget. Add interest on the national debt—nine percent—and the total reaches 76 percent.

Since interest on the debt cannot be cut and there is a consensus developing in favor of increased defense spending, any really significant cuts would have to affect payments to individuals.

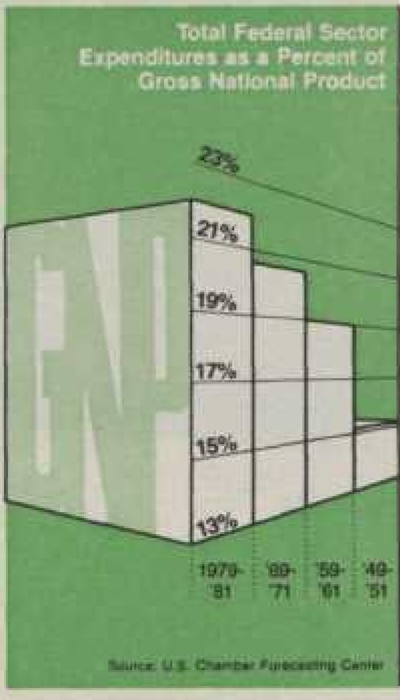
But is budget-cutting the answer to inflation? That depends on your school of economic theory. There are currently five such schools active in Washington, offering a torrent of sometimes overlapping and sometimes conflicting advice on how to manage the economy. In approximate order of influence, they are the monetarists, the budget-balancers, the supply-siders, the wage-price controllers, and the Keynesians.

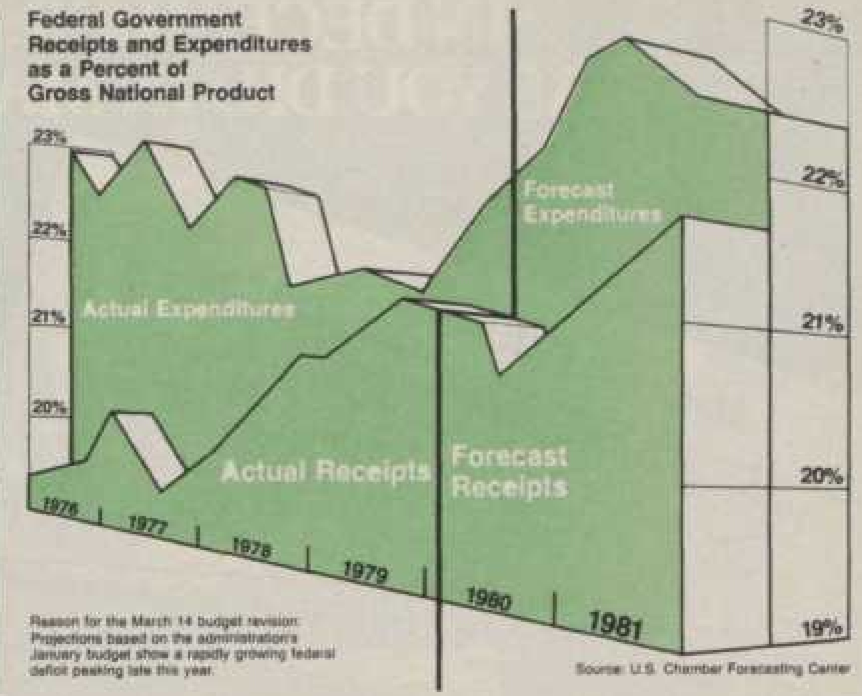
PHOTO: YOICHI R. OKAMOTO

James T. McIntyre, OMB director, says the "real driving force of inflation is the indexing of the budget."

THE LEADER OF THE MONETARISTS at the moment is Paul A. Volcker, chairman of the Federal Reserve Board.

Mr. Volcker's position is that "inflation cannot persist over the long run in the absence of excessive monetary growth." In keeping with that view, he





led the Fed's crackdown on the growth of money and credit, which began last October and, he hints, hasn't ended yet.

The Fed chairman hedges his bets, though. "In theory," he says, "monetary policy could do the job alone; in practice, complementary policies are needed. . . ." These include: Restraining spending; curtailing dependence on foreign energy; eliminating impediments to competition that are imposed by government regulation; revising legislation that tends to ratchet up wages at the expense of employment; reviewing the cost impact of environmental, safety, and consumer regulations; and resisting pressures to protect industries from foreign competition.

Mr. Volcker favors tax restructuring to stimulate business investment and enhance productivity growth, but not immediately. "Net tax reduction can be earned only by restraint in expenditures over time, and that time has not yet come," he says. President Carter took a similar position in his budget and economic messages.

THE BUDGET-BALANCERS give first priority to eliminating the deficit. The budget for fiscal 1980, which ends Sept. 30, projected a deficit of $29 billion. That deficit is now expected to be well over $40 billion.

The original Carter budget for fiscal 1981 projected a deficit of $16 billion. But many economists said a deficit of $20 billion to $40 billion was more likely, given the assumptions in that budget and the likely behavior of Congress.

Continuing large deficits, the balancers say, force public officials to choose between depreciating the currency or raising credit costs to levels that stifle business activity and increase unemployment. So they believe control of inflation must begin with budget cuts.

There are two sects among the budget-balancers—the ad hoc choppers and the constitutional-limiters.

Proposals are proliferating for ad hoc cuts in the 1981 budget, and some would trim the 1980 budget as well.

President Carter has proposed to trim his fiscal 1981 budget by $13 billion and shave $2 billion off 1980's.

Critics are saying these cuts, which apparently don't affect the big entitlement programs, are timid.

The reductions—plus an anticipated rise in revenues of about $9 billion—will bring the 1981 budget into balance, the administration says. But just in case that isn't enough, there's new revenue of $11 billion from an import fee affecting gasoline and $2 billion from initiation of tax withholding on interest and dividends.

Besides these changes and an authorization for the Federal Reserve System to tighten up on credit, the administration is making its voluntary price control program more rigorous.

And if adequate steps are not being taken to balance the budget, the President pledges to seek from Congress a temporary grant of extraordinary powers to rescind spending programs.

A bipartisan group of nearly half the Senate, led by Sens. William V. Roth, Jr. (R.-Del.) and William Proxmire (D.-Wis.), wants to cut $25 billion to $30 billion from the fiscal 1981 budget and limit spending to 21 percent of the gross national product. The budget proposed by President Carter in January calls for a spending hike of $68.2 billion over fiscal 1980 to $615.8 billion, which would be 22.3 percent of GNP. In the House, a proposal by Rep. Jim Jones (D.-Okla.) would also limit federal spending to 21 percent of GNP for fiscal 1981 and 20 percent annually thereafter. Other proposals for cuts are expected from Senate Budget Committee Chairman Edmund S. Muskie (D.-Maine).

CONSTITUTIONAL-LIMITERS agree that balancing the budget is the way to go, but they do not think Congress will do it. "There's just no way that Congress can discipline itself," says Sen. Dennis DeConcini (D.-Ariz.). Sen. Orrin G. Hatch (R.-Utah) says that since the House and Senate budget committees were set up six years ago, "we've jumped about $400 billion in the national debt and about $200 billion in the annual budget."

"We had better put some pretty drastic restrictions on our elected representatives before they completely wreck the economy of the United States," says Sen. William L. Armstrong (R.-Colo.). "I don't think a con-

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The two factions of budget-balancers are the ad hoc choppers and the constitutional-limiters, some of whom believe that Congress is incapable of balancing the budget. From left are Sens. William Armstrong (R.-Colo.), Richard Stone (D.-Fla.), Pete Domenici (R.-N. Mex.), William Roth, Jr. (R.-Del.), William Proxmire (D.-Wis.), and John Danforth (R.-Mo.).

stitutional amendment is the best way or even a good way to get federal spending under control. I happen to believe it is the only way. . . ."

Sens. DeConcini, Hatch, and Armstrong support a Senate resolution for a proposed constitutional amendment that would prohibit deficits unless approved by three fifths of both houses of Congress on a roll-call vote. The amendment would also prohibit unlegislated increases in tax revenues, which result from inflation pushing taxpayers into higher brackets.

Sen. Alan K. Simpson (R.-Wyo.) notes that 30 states have called for some form of constitutional spending limit. "Congress terribly misreads the American public if it doesn't move on this one," he says.

THE SUPPLY-SIDE THEORY is often identified with economist Arthur Laffer, whose Laffer Curve indicates a point at which tax increases stifle business activity and result in a net revenue loss and, conversely, a point at which tax cuts stimulate economic growth, increasing net revenue.

Supply-siders don't necessarily disagree with monetarists and budget-balancers over ends; they just have different ideas about the means.

In Congress, supply-side theory—once the lonely province of Sen. Roth and Rep. Jack F. Kemp (R.-N. Y.)—now appears to have found a home with the Joint Economic Committee. That group proposes a $25 billion tax cut, with one half shaped to stimulate business investment. The committee sees a need to shift "the focus of monetary and fiscal policies away from short-run crisis management toward steady long-term economic growth."

Supply-side theory also has strong support from business. "Immediate tax reductions are needed to remove the disincentives to capital formation," says Richard W. Rahn, vice president and chief economist of the Chamber of Commerce of the United States. "The key to lowering inflation," he explains, "is to change inflationary expectations by immediately adopting policies directed at the causes of inflation. Inflation is caused by excessive monetary growth coupled with tax and regulatory impediments" to improving productivity and increasing the supply of goods and services.

The U. S. Chamber favors a $21 billion cut in the 1981 budget, continued monetary restraint, passage of the 10-5-3 Capital Cost Recovery Act, an immediate two-point cut in the corporate tax rate, and a gradual reduction of taxes on labor and investment income.

LIKE THE PHOENIX, wage-price controls keep rising from the ashes of their previous failures. The process has been going on for more than 4,000 years, according to some historians.

The major arguments for controls include:

1. They would break the present inflationary psychology.

2. They probably wouldn't do very much damage, if accompanied by the fiscal and monetary measures necessary to reduce inflation.

3. Nothing else is working, so we might as well try them.

The simple concept of passing a law against inflation has widespread support among the general public. Support from economists, politicians, and business people appears to be growing.

Barry P. Bosworth, former director of the Council on Wage and Price Stability, attracted much attention when he and some other economists came

out in favor of controls last February.

Sen. Edward M. Kennedy (D.-Mass.) has made controls a platform plank in his try for the Democratic presidential nomination.

The AFL-CIO has flirted with the concept of controls for more than a year. The labor federation's outright support for controls was dropped when the unions signed their national accord on economic policy with President Carter, but AFL-CIO policy still calls for controls if voluntary efforts fail.

Henry Kaufman, general partner of the international investment banking firm of Salomon Brothers, startled the banking community in February with a heavily qualified call for controls.

Not long after Mr. Kaufman's speech to the American Bankers Association, another prominent New York banker, Felix Rohatyn of Lazard Frères & Co., recommended a wage-price freeze, saying: "I think this country is drifting toward bankruptcy." Mr. Rohatyn headed the Municipal Assistance Corp., set up to guide New York City out of its financial difficulties.

President Carter continues to say that he will not consider controls, but officials who are planning to apply controls usually deny the plans right up to the moment of imposition to prevent anticipatory increases in wages and prices.

According to classical Keynesian theory, the government can rescue the economy from a slump by borrowing money and distributing it through various programs to consumers. The consumers then increase their spending, which stimulates the business sector. Unfortunately, the politicians had so much fun handing out money during the country's economic slumps that they continued the practice after the economy recovered.

Federal deficit spending during a boom causes inflation, which is what got the U.S. economy where it is today, most economists now agree.

Thanks to a growing understanding of this process, it is very hard to find an admitted Keynesian today. Only the unions and a few old-style liberals are still calling openly for demand-side, stimulative deficit spending.

At its winter meeting, the AFL-CIO executive council reaffirmed its opposition to "arbitrary numerical restrictions on the budget, including mandated balanced budgets," and urged Congress to "improve funding for programs that maintain the economic and social fabric of this society."

The overwhelming economic consensus is that wage-price controls do not work and that the cure for inflation must consist of reducing the federal budget deficit, limiting the growth of the money supply, and stimulating business investment through tax relief.

If Congress and the President do get together on budget cuts, will the cuts stick? It is a very relevant question, considering that nearly 40 percent of the anticipated deficit for fiscal 1980 developed after submission of the budget for that year.

A good sign of official determination to go the course, many Washington observers believe, would be a move to limit the growth of the entitlement programs. Grasping that nettle would provoke political outcries, but it is obvious to most students of the budget that it will have to be done one day, later if not sooner.

No one says that a cure will be painless. In the words of Mr. Volcker, fighting inflation "will test our patience, our wisdom, and our common sense."□

Trends Represent Trouble for Steel Industry

PHOTO: AMERICAN IRON AND STEEL INSTITUTE

Although an overall decline of five percent in steel shipments is expected this year, increased supplies will be required by rail and oil and gas industries.

The American steel industry is at a crossroads. The 1980s will be a decade of either revival or decay.

The American Iron and Steel Institute, a leading industry trade group, says: "If current trends in the steel industry continue with no significant changes in government policies, the future holds unprecedented reliance on imported steel, a huge steel trade deficit, accelerating decline in the industry's efficiency and facility closedowns, and substantial job losses."

Lewis W. Foy, institute chairman, says: "Our national security demands a buildup in defense capabilities, and it can't be done without ample domestic supplies of steel products." He says government efforts to hold down steel prices have depressed earnings and prevented an adequate rate of capital spending.

Some other points the institute says are troubling an industry that employs about 432,000 people:

- In the past ten years, there has been a gradual shrinkage in productive capability, due principally to a shortage of capital. Nearly a quarter of total capital expenditures is spent on mandated environmental controls.
- Market growth in the United States in the past ten years has gone largely to imports.
- The industry will have to double its spending level to $5.7 billion a year to replace worn-out equipment, expand production, and meet present environmental goals.
- Capital spending in the past decade has exceeded cash flow. The difference has come from borrowing and diversion of profits from nonsteel activities.

Mr. Foy says revitalization requires coordinated government policies to en-

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courage capital formation, eliminate subsidized imported steel, and keep environmental controls within affordable bounds.

Aircraft Engineers Design Wings of the Future

Aircraft designers try to shave a pound or two from every part that goes into a plane.

Lockheed-Georgia, a division of Lockheed Corp., is working on a much bigger efficiency: A design for commercial and military use that would save thousands of pounds in one swoop—about five percent of a plane's gross weight.

Flight science engineer Jerry Phillips calls it an electric airplane, and says it can be cheaper to build, operate, and maintain than a conventional plane.

Don't be misled, though. When an electric plane flies, perhaps by the end of the 1980s, it won't be battery-powered, and electricity won't be its primary source of power. All-electric refers to the use of electric power to open doors, lower landing gear, pressurize the cabin, control the plane's flight path—and do everything but get the plane airborne.

Electric generators and motors using magnets that are at least seven times stronger than conventional magnets will make this possible.

The plane will still fly on conventional fuel, but will use less of it, Mr. Phillips says.

"The attractiveness of an all-electric plane," he adds, "is that you can build aircraft with one electric secondary power system to do the same job two or three secondary power systems do now. Conventional planes have electrical systems, plus hydraulic and sometimes pneumatic systems."

Consumer Electronics Flood Market

Consumer electronics firms bring home the technological advances that usually turn up first in laboratories and business.

A host of new devices and refinements of old standbys is reaching the marketplace now. For example:

More microprocessor-equipped products. Speak & Spell, a learning game for children from Texas Instruments, Inc., selects a word at random, pronounces it, and waits for the correct spelling. A correct answer elicits verbal praise from the machine; a wrong answer triggers patient encouragement to try again.

• Solar-powered watches. UIT Precision Co. has a line of timepieces with a ten-year warranty on solar cells and a five-year warranty on the rechargeable battery.

• Audio remote control. After switching on the tuner, audiophiles can make fine adjustments to their top-of-the-line equipment.

• Enhanced television. One new model allows simultaneous viewing of four different channels. Large screen sets are becoming widely available at lower prices. Still a few years off is stereo TV. High quality sound will replace monaural tinniness.

Metal Building Systems Reflect Steady Growth

Metal building systems are showing surprising strength in a slowing construction market, according to Charles H. Waldron, chairman of the Metal Building Manufacturers Association.

Mr. Waldron, who is also general manager of Mitchell Engineering Co., Columbus, Miss., expects the metal building industry to maintain its \$1.2 billion pace in 1980, which, considering inflation, amounts to a drop in real sales.

Pre-engineered metal buildings are a growing part of the \$220 billion-a-year construction industry. Mr. Waldron says the structures—used for factories, stores, municipal buildings, schools, offices, and warehouses—account for nearly half of all low-rise nonresidential building.

He also notes that since metal build-

Metal buildings are a growing part of the \$220 billion-a-year construction industry.

ing systems represent about 20 percent of the total cost of a project, industry sales are an estimated $5 billion of in place construction.

Americans Drink More —and Down More Beer

Beer drinking is on the rise and has been for the past 22 years.

That's the enviable record reported by the U.S. Brewers Association, which says shipments rose 3.4 percent last year and per capita consumption climbed to 24.1 gallons from 23.4 in 1978. In other words, about an eight-ounce serving for every citizen.

The United States—12th worldwide in per capita consumption—is still far below the leading beer-guzzling nations. According to 1978 data, the most current available, West Germans downed 38.5 gallons of beer and Australians, 36.4 gallons, annually.

Chemical Makers Predict Increase in Sales

Despite the difficulties of complying with federal environmental and health regulations, the chemical industry is optimistic about the future.

A survey by the Chemical Manufacturers Association indicates that member firms predict 1980 will be a good year with sales topping $168 billion—a 14 percent increase over 1979.

Capital expenditures are expected to rise 12 percent; research and development spending, ten percent; and industry employment, three percent. This last figure is significantly better than the one-half percent average maintained for the past ten years.

On the pessimistic side, chemical firms foresee difficulties with still-developing Toxic Substances Control Act regulations, shifting waste disposal requirements, and the cumulative effects of all government regulations on the industry.

Chemical firms see problems ahead with new regulations on toxic substances.

Boating Enthusiasts Produce Good Year

Retail boating expenditures rose ten percent in 1979 to $7.5 billion, according to the National Marine Manufacturers Association. This includes money spent for boats, motors, accessories, used boating equipment, fuel, insurance, repairs, slip fees, and other marine services.

The association estimates that 58 million Americans went boating at least once on the 11.6 million boats that comprise the U.S. recreational boat fleet. This fleet, up from 8.8 million ten years ago, includes 6.7 million outboard boats, 1.3 million inboard boats, 904,000 sailboats without auxiliary power, 1.2 million canoes, and 1.5 million rowboats and miscellaneous craft.

The average length of an outboard boat purchased in 1979, says Matt Kaufman, association president, was 16.3 feet, up from 15.1 feet in 1978.

Fiber Optics Benefit From Business Boom

The cables must be magnified a thousand times to reach the size of two pencils, and everything must be lined up precisely. But the market for fiber optic connectors will grow tenfold during the coming decade.

That's the prediction of International Resource Development, a market research firm based in Norwalk, Conn. The firm says fiber optics—the transmission of information, often telecommunications signals, through a glass fiber light tube—is booming. As a result, the market for the tiny connectors that allow the information-laden light pulses to continue from fiber strand to fiber strand with minimal distortion is growing by 30 percent per year.

The firm notes that most connectors used with copper cables are plated with outrageously expensive gold, while fiber optic connectors are made primarily from nylon and plastic.

These fiber optic connectors relay information with minimum distortion.

Selling Gasoline by Liter Cuts Conversion Costs

The United States Metric Board estimates that more than 2,000 gasoline stations in 30 states now sell gasoline by the liter.

With rising fuel costs, the 175,000 retail gasoline service stations in the United States must deal with pumps that can compute only to 99.9 cents per gallon. To convert these pumps to dollar-plus prices would cost about $200 per pump. But converting to metrics and dispensing fuel by the liter—slightly more than a quart—would cost an estimated $50 per pump.

Total savings, says the board, would be $90 million. Malcolm E. O'Hagan, executive director of the metric board, says the device of pricing by the half-gallon and having the station attendant double the posted price is only an interim measure. He recommended conversion to liter pricing and dispensing by 1983.

Trucking Industry Faces a Cloudy Future

With the expectation of an economic slowdown, the U.S. trucking industry predicts no real growth during 1980.

Bennett C. Whitlock, Jr., president of the American Trucking Associations, says: "Assuming the recession is modest, industry operating revenues could rise five to eight percent with commensurate cost increases. Tonnage is expected to be flat at best."

The outlook is further clouded by the unpredictability of fuel prices and supply and the future of economic regulation of trucking.

A trucking deregulation bill is likely soon. "The fortunes of the trucking industry for the 1980s will be written in that bill," Mr. Whitlock says. □

Are Shareholders Being Victimized?

By Robert Hessen

A coalition of consumer activists, union members, and other groups have set April 17 as Big Business Day with their focus on large corporations. A major purpose of this anti-business day will be to generate support of legislation called the "Corporate Democracy Act."

The architect and chief proponent of the legislation is Ralph Nader. While many of the features of the proposal have been around for years, the business community, particularly the U. S. Chamber of Commerce, is ready to counter this latest assault with facts and figures.

One of the most articulate challengers to Mr. Nader's thesis is Dr. Robert Hessen, author of In Defense of the Corporation, *published by Hoover Institution Press, Stanford University, Stanford, Calif., © 1979.*

"Ralph Nader's hostility to corporations is well-known and long-standing," Dr. Hessen says. "He began attacking individual companies and industries in 1965 and since then has been searching for a wholesale remedy for the alleged evils and abuses of giant corporations as a class."

Dr. Hessen makes an uncompromising defense of the right of corporations to exist and function freely. This essay is excerpted from his book.

NADER maintains that shareholders are inactive because they have been denied access to information about corporate activities. But there is another explanation for their inactivity; it is a deliberate decision for most shareholders. They are attracted to corporate shares precisely because they will not be required to participate in managerial decision making. What they seek is a *sideline* investment, an opportunity to entrust some of their savings to managerial specialists in return for a share of the resulting profits.

Critics frequently denounce the separation of ownership and control in giant corporations; yet it merely represents a widening specialization of function or division of labor. There is no reason why a shareholder must personally manage his own money. If he wants to supply both capital and managerial services, he can become a sole proprietor or a general partner. But why should anyone else protest if he decides to rely on the managerial expertise of others? This is precisely what a person does when he deposits money in a bank, becomes a limited partner, buys shares in a mutual fund, or purchases corporate bonds.

Just as most investors do not seek to exercise managerial authority, so too, when a business goes public, the founding officers and their successors do not intend to relinquish their decision-making powers. For example, when Walt Disney, Edwin Land, and Thomas J. Watson sold stock in their companies to outsiders, they were seeking capital, not advice on how to produce cartoons, cameras, and computers. New investors were never led to believe that they were acquiring managerial powers equivalent to those of general partners. If the relationship between shareholders and corporate officers is mutually acceptable, if millions of people willingly invest in corporations which they will not personally manage, then critics have no right to interfere.

> "The idea that giant corporations lack legitimacy because they are not private property must be analyzed and refuted."

TO DENOUNCE the largest corporations because shareholders do not directly control their policies or select the officers—to say that they should, that they must because they are the owners—ignores the fact that owners do not exercise any control in some other leading forms of business organization. Limited partners, for example, are owners; yet they have no voice or vote in setting business policy. Similarly, those who purchase certificates in business trusts exercise no control. Like shareholders, trust beneficiaries obtain freely transferable shares with limited liability, but unlike shareholders, they acquire no voting rights. Investment without control is not an evil if the investors freely consent to that arrangement.

In fact, officers and investors are allies, not adversaries. Those who possess savings are able to supply capital to a business enterprise without having to acquire the specialized knowledge needed for managing a business. And the officers, in turn, obtain an opportunity to run businesses whose capital requirements exceed their personal assets. Their contributions to the enterprise are knowledge and ability—knowledge in the specialized fields of production, marketing and finance, and ability in building and sustaining a business, in directing its growth, and in leading its response to unforeseen problems and challenges. Because of their expertise, the officers properly are left free to act without obtaining authorization from the investors. If this inactive role is unacceptable to any investor—whether limited partner or corporate shareholder—he is free to withhold or withdraw his funds.

Nader, however, assumes that share-

holders are eager and qualified to participate in policymaking. He does not consider the likelihood that many shareholders are deliberately inactive and uninvolved because it takes too much time to study the information already available to them. A small-scale investor may have more personal and urgent interests to pursue other than studying the financial and statistical data sent by each of the five or fifteen corporations whose shares he happens to own. Time and energy are scarce resources for each individual, and quite rationally, a person concentrates his prime attention on those areas of life where the effects of a poor decision are most intensely experienced. Thus, the more widely diversified a person's investment portfolio, the less incentive he has to closely monitor each situation.

NONETHELESS, in the name of shareholder protection, Nader calls for a system of plebiscites by mail on all fundamental transactions. He proposes this expensive and potentially paralyzing new procedure without acknowledging that a less complicated and less costly system already exists. The stock market functions as a daily plebiscite, enabling investors to register their individual reactions without needing to be members of a majority voting coalition.

The primary safeguard for shareholders of giant corporations is their ability to sell their shares instantly. Professor Henry G. Manne has shown that if corporate officers pursue policies which offend or disappoint a substantial number of shareholders, they undermine their own position. A massive exodus or sell-off by disgruntled shareholders depresses the price of the stock and thus makes it attractive for corporate raiders to attempt a takeover. And Professor Burton G. Malkiel has concurred: "A company that has been run by a management group whose major objective is *not* the wellbeing of the shareholders will become a prime target for a take-over bid. The ever present threat of such a bid is likely to provide a powerful incentive for management to make the maximization of the shareholders' wealth a primary goal of the firm."

BUT ISN'T IT TRUE, as Nader claims, that giant corporations deliberately withhold dividends from their shareholders? Nader's explanation is that the officers prefer retained earnings: "Corporate executives are frequently owners of substantial blocks of stock and would, for personal reasons, prefer maximum increases in share price, subject to capital gains taxes, to [i.e., instead of] the ordinary tax treatment of dividend income. The interest of many stockholders is exactly the opposite. They average more modest income and would prefer cash in hand now to the possibility of a price increase later." This comparison tries to create the impression that the typical shareholder is relatively poor, perhaps the proverbial widow or orphan from whose mouth the greedy officers and subservient directors seize the dividend crumbs.

Once he has invoked the plight of the shareholders as a means of condemning the officers, Nader has no further sympathy for them. He accuses shareholders of being profiteers, growing ever richer at the expense of consumers. He claims that the largest corporations possess monopolistic or oligopolistic power which they use to overcharge consumers—and the shareholders are the primary beneficiaries: "Oligopoly overcharges shift income from the *average* consumer to the *wealthy* shareholder, contributing to [greater] income inequality." The shareholders undergo an instantaneous transformation; when Nader wants to damn corporate officers for withholding dividends, the shareholders are relatively poor and needy, but when he wants to damn shareholders, they are portrayed as wealthy parasites.

SIMILARLY, Nader switches back and forth on the question whether ownership of corporate shares is becoming increasingly concentrated or increasingly dispersed. Nader's answer is *both*. First, he notes with alarm the increasing *dispersion*: "In the largest corporations, thousands, sometimes hundreds of thousands, of individuals owned shares with the result that in most of these firms no single individual held an important proportion of the total ownership." Later he reports increasing *concentration*; as of 1963, "1.6 percent of the adult population of the United States owned 82.4 percent of all publicly held stock."

But Nader's statistics are invalid. If 1.6 percent owned 82.4 percent of the shares, then how can he also claim that "approximately 50 percent of the stock in the 1,800 companies traded on the New York Stock Exchange is held by mutual funds, life insurance or property and casualty insurance com-

panies, private pension funds (usually administered through commercial bank trust departments), state and local pension funds, foundations, university endowment funds or other institutional investors"? The total exceeds 100 percent. The problem arises because he classifies institutional investors as individual adults in order to be able to condemn the allegedly increasing concentration of share ownership. Because of double-counting, his statements about individual and institutional holdings are meaningless.

Yet it still might be true that the shareholders, whether wealthy or poor, are being denied dividends. If that were true, one might expect to see a steady decline in dividends paid out. What actually does happen? In a study of corporate dividend policy, Professor Keith V. Smith writes: "The board of directors . . . attempts to construct over time an increasing, or at least a nondecreasing, record of cash dividend payments. . . . [and] when it is no longer possible to avoid a dividend cut, directors will make a single cut large enough so that subsequent cuts are avoided."

> "When Walt Disney, Edwin Land, and Thomas J. Watson sold stock in their companies to outsiders, they were seeking capital, not advice on how to produce cartoons, cameras, and computers."

WHEN NADER implies that shareholders are helpless, that they must be grateful for whatever meager dividends the directors may declare, he overlooks a crucial fact—investors can study the dividend record of different corporations before they decide to buy shares. Among the 1,800 corporations whose shares are traded on the New York Stock Exchange or the 1,100 on the American Stock Exchange, investors can easily discover which companies stress high dividends. This information is readily available in libraries and stock brokerage offices.

Moreover, the alternative to high dividends—retained earnings—is hardly a calamity. Retained earnings increase the value of the stock, and shareholders thereby benefit. Either a company invests its earnings at a profit, which raises the net asset value of each share and thus drives up the stock price, or it keeps the earnings in an idle cash hoard, thus attracting corporate raiders who bid up the price of the stock in their efforts to gain control of the company. Either way, shareholders stand to gain.

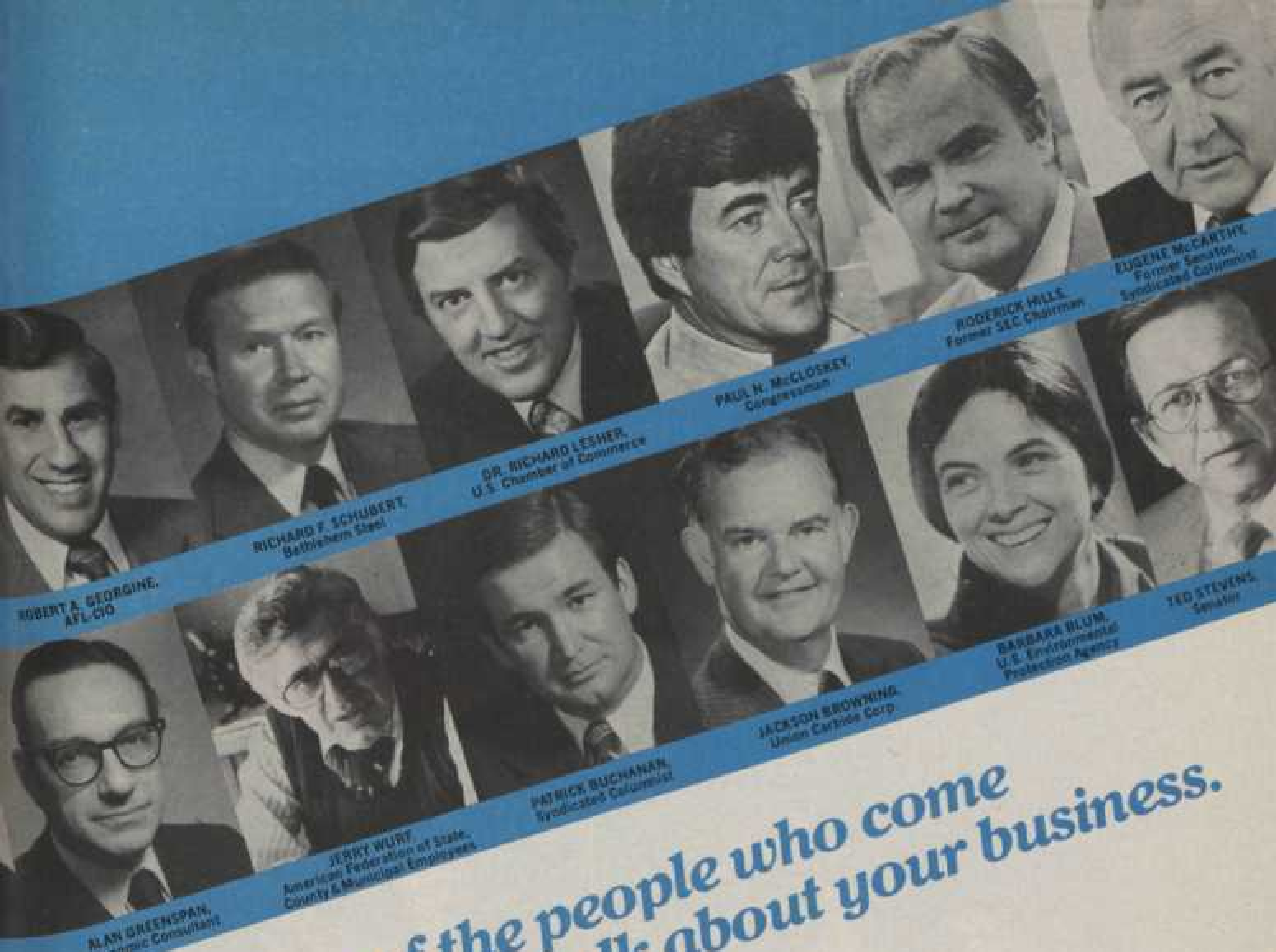
Millions of people have a financial stake in the prosperity of America's largest corporations, either directly through purchase of shares or indirectly through pension funds, insurance companies, and other financial intermediaries. Nader claims to be speaking in the name of these millions, but he offers no evidence that they want or need the plebiscites or other reforms which he is demanding on their behalf.

A proper defense of corporations must stress that they are created and sustained by freedom of association and contract, that the source of freedom is not governmental permission but individual rights, and that these rights are not suddenly forfeited when a business grows beyond some arbitrarily defined size, either in terms of assets, sales, and profits or the number of investors, employees, and customers.

The owners and officers of corporations constitute a minority of citizens in America today, but no other minority (economic, racial, religious, or intellectual) is continually forced to justify its right to exist in terms of service to society or the state. Any encroachment upon the rights of these individuals establishes a precedent for inroads upon the rights of other individuals, other minorities, and other voluntary associations.

That is why everyone—not merely business executives and investors—has a crucial stake in defending the corporation. □

HISTORIAN ROBERT HESSEN *is a research fellow at the Hoover Institution and teaches in the Graduate School of Business at Stanford.*



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Business
Life-Style

PHOTO: RON CHURCH—PHOTO RESEARCHERS, INC.

A surfer moves across the face of a wave, ready to ride and ride

PHOTO: JOHN BRYSON—PHOTO RESEARCHERS, INC.

Balancing agilely, a surfer outmaneuvers cascading water.

PHOTO: RON CHURCH—PHOTO RESEARCHERS, INC.

A surfer's paradise: A big, blue, beautiful wave

Surfers:

Riding a Ten-Foot Wave Is Only for the Brave

By John Costello

Ever look hard at the ocean? Big, blue, beautiful, the white surf breaking. Or gray and sullen, with dark, angry swells.

That's the surfer's world.

Sometimes soft and gentle, sometimes wild and rough, the same only in that it is always challenging and seductive, a siren whose song can never be naysaid.

Roger Feit heard it so young that he can't remember when.

"I've been going to the beach since I was born," the New Yorker avows. But the first time he rode a surfboard is stamped on his memory.

"It's an unforgettable experience for everyone," he says. "You've never before had a feeling like it.

"I've done all kinds of sports, but the first time you're on a board, and the white water lifts you up and starts moving you swiftly toward the beach, with nothing propelling you but the wave, that is exhilarating."

Surfers have a word for it—stoked. It means the way the blood races and the mind blows, when the tingling combination of speed, danger, and surprise gives a person the kind of high nothing else can match.

Tinsel Town and Tin Pan Alley helped make surfing popular. In 1959, the first *Gidget* movie hit the screen. In 1961, Columbia Pictures released its first sequel: *Gidget Goes Hawaiian.* Here's how the American Film Institute catalog summarizes it:

"Gidget Lawrence has a lover's quarrel with her surfer boyfriend, Jeff Mather, when she tells him that her parents are taking her on a vacation to Waikiki Beach; instead of being miserable about the separation, he congratulates her on her good fortune."

Many frames later, they kiss and make up.

That or a reasonable facsimile was the format for many a surfer film. From 1960 to 1970, Hollywood made 23 of them. Alphabetically, they ran from *Beach Ball* to *Beach Blanket Bingo* to *Waves of Change.* In 1966, Bruce Brown's lyric surfing film, *The Endless Summer*, turned even the landlubbers on.

Then there was rock and roll. In early 1963, the Beach Boys' recording of *Surfin' U. S. A.* made the jukeboxes. Its message went something like this:

If everyone had an ocean,
in the U. S. A.
Then we'd all go surfing,
as in California.

"The Beach Boys were very popular in the sixties," says Mr. Feit, whose first trip on a surfboard preceded this musical event.

"Their music influenced style and customs," says the proprietor of Quality Tree Service, Roslyn Heights, N. Y. "Pretty soon, even people who didn't go down to the beach tried to look beachy and used surfing terms."

But Hobie Alter, an early surfboard maker, deserves more credit than the cinema stars or crooners, experts say.

"Hollywood didn't start the surfing boom in America," says Richard Dowdy, editor of *Surfing* magazine. "Hobie Alter did. He came out with a polyurethane foam board in 1956. It was a short, light board now known as the Malibu style. You didn't have to be Superman to carry one as you did with the old 150-pound wooden boards.

"That innovation ignited the surfing boom in California. It spread from here to the rest of the country."

How many surfers are there? "About ten years ago, the Army Corps of Engineers estimated there were about 600,000 in Southern California," says Steve Pezman, publisher of *Surfer* magazine. "Now there are an estimated 1.5 million in the United States. About 200,000 in Florida, 100,000 in Hawaii, and a lot along the Gulf Coast, especially in the Houston-Galveston area."

PHOTO: UNIPHOTO

Rest time . . . surfers relax before they start the long paddle out to catch a wave and challenge the ocean for a long ride in.

How much do they spend on their hobby? "About $400 million a year for boards, wet suits and other related items," Mr. Dowdy says.

That figure doesn't include air fares. And surfers travel a lot.

Mr. Feit, who has won the East Coast surfing championship once and placed second three years in a row, taught himself to surf at Gilgo Beach, Long Island. The waves there are typically two to three feet high.

Too small to surf?

"No, you can maneuver on even a one-foot wave if the wave is right."

Last year, he and his wife spent a month surfing in Puerto Rico.

How about the waves there?

"Oh," he says, "they can be 20 or even 24 feet high. That's why it's called the Hawaii of the East."

HOLLYWOOD and rock groups may have given surfing a bad public image.

Laid-back California.

Cool and kinky.

Beach bums and blanket parties.

Adolescents puffing pot and popping pills.

To steal a line from an old Broadway show, it ain't necessarily so.

Talk to surfer Diane Grosskreutz of Melbourne Beach, Fla., a board member of the Eastern Surfing Association. She is the owner, designer, maker, and marketer of Desert Sun bikinis.

"We live in your basic, all-American neighborhood," says Mrs. Grosskreutz.

"We have six streets here, and they all run down to the ocean. Go to the beach on a Saturday afternoon, and it's like a neighborhood park.

"Everyone will be there. Young kids, teenagers, men and women—everyone is out surfing, having a good time, laughing and enjoying it."

Mrs. Grosskreutz learned to surf near Houston where she grew up. "Houston is about 60 miles from the Galveston-Freeport area," she says, "and in Texas, 60 miles is next to nothing."

She prefers the Florida surf, although she has also surfed in El Salvador.

"The waves are cleaner and break better in Florida. You want to stay on the face of the wave—on the smooth—but back where the curl is. Where the wave is breaking and the water is white; that should be at your back," says Mrs. Grosskreutz.

"You don't surf down it, as in skiing. You move across the face of the wave to the left or right, depending on how it's breaking. If it breaks perfectly, you can ride it, and ride it, and ride it. And it's such a feeling."

How big a wave can she handle?

"Head high, or maybe a little bit higher."

IN 1946, when he was a kid in Hawaii, Duke Boyd learned to surf at Waikiki Beach. "Hawaii in those days was a sight to behold," he says. "It was almost like Tahiti. Hardly anyone was at the beaches.

"Honolulu was like a small, little town out in the middle of the Pacific Ocean."

Then his parents left the lush tropical isles, and he spent 12 years on dry land.

He sometimes regrets that.

"Had I stayed with it as a young person, I might have become a fairly good surfer. I didn't have any fear of the big surf."

In 1958, while attending college in Long Beach, Calif., he took up where he had left off.

Why?

"When I'm away from the water too long, my gills get dry," he explains. "And that was the era of California's revitalization of surfing. It had begun centuries ago in Hawaii, but had almost died out. I was part of the whole revival.

"I had a Woody, a 1946 Ford station wagon with wood trim. We would travel up and down the coast from Baja California to Santa Cruz, sometimes in my car, sometimes in a friend's, with surfboards in the racks and a lot of honey, bananas, and raisins on the back seat.

"High energy stuff. You need it just before you make the long paddle out on your board to catch the waves."

Mr. Boyd is founder, president, and chairman of the board of the Bolt Corp. "It makes and licenses the manufacture of sportswear and sporting goods," he explains, "shirts, jewelry, shoes, wet suits. This month I hope to move the international headquarters to Hawaii."

Why?

"To take up serious surfing again. I can probably handle six-foot to eight-foot surf. But I used to be able to handle ten to 12.

"I guess the main reason is that surf-

ing is something I have always wanted to do. Nobody talks about it much, but a lot of study and intellectualism goes with the sport.

"You have to know about the ocean itself—swells, currents, and winds—to surf well. Otherwise, you'll spend a lot of time swimming.

"The real value to most surfers is that it's an art form," Mr. Boyd adds. "It's a graceful activity—like gymnastics or, better yet, bullfighting. You have to be able to move within certain critical areas of the wave and not get wiped out—knocked off your board by tons of cascading water.

"It's like flirting with an axe, and it's a very solitary sport," says the former collegiate football player. "It doesn't have a lot of pompoms and whistles."

WHEN KAREN MACKAY was 16, her mother asked her a tough question.

"Which do you want?" she said. "A surfboard—or a Sweet 16 party?"

"It was a hard choice," Miss MacKay says with a laugh. "I decided on the party, but I got both."

She was in the eighth grade when she learned to surf at Galveston Island, Texas, on boards borrowed from friends.

"I was always into sports when I was growing up," she adds. "Surfing was the first sport I ever tried that I didn't need anyone else with me to enjoy.

"It really brings out your individuality. You go out on the water, develop your own style, and create what you want to do. It's almost like dancing on stage."

Until recently, Miss MacKay was a buyer of men's and boys' clothing at Joske's department store in Houston. Now she has her own Inlandr Surf Shop there and more time for surfing.

How often does she go?

"Every Sunday," she says. "And if I can sneak in a few times during the week, I will. It's only about a 45-minute drive to the beach.

"Every six weeks or so, I go to California for a long weekend to surf—like Thursday through Monday."

What are its rewards?

Partly aesthetic, says Miss MacKay, an active member of the Gulf Surfing Association. "I get up early to surf," she says, "and I see a lot of magnificent sunrises.

"And when you're out there, floating on the water on your board, the sea is very, very beautiful."

And partly competitive. "I won the women's national surfing championship in 1977, and I came in second in 1979. It is especially satisfying to do well at what is basically a man's sport."

Would you like to have shoulders as wide as a four-lane freeway, a waist as skinny as a wasp's, a deep tan, and hair bleached blond by Old Sol? And a lot of friends of the opposite sex? Then surfing may be your bag.

On the other hand, if you like a nice quiet hobby like raising petunias, or a safe way to exercise like cross-country skiing, perhaps something indoors like breeding tropical fish or collecting stamps, then skip surfing.

SURFING is a way to pump up your adrenalin, scare the pants off your wet suit, and feel the thrill of doing well something difficult, graceful, and occasionally scary.

Who are surfers? Mostly pretty independent types. Surfing isn't for the anemic, lily-livered, or weak-kneed.

"It's the most demanding sport I know," says Charles L. Allen, "and it takes tremendous upper body strength.

"That's why," the ex-rodeo rider from Enid, Okla., says, "you can almost always tell a surfer—broad shoulders tapering down to a pair of skinny legs.

"He spends most of his time on his knees, paddling a board out to sea, sometimes in heavy surf. He's built like a swimmer. And he had better be a good one," says Mr. Allen, vice president of the United States Surfing Federation and president of the National Scholastic Surfing Association.

Why would the senior vice president of a nice friendly savings and loan association in Huntington Beach, Calif., go out and risk his neck in the briny deep?

"When I get out there, I can forget my troubles and really get into the beauty of the ocean.

"You are kind of one on one with the ocean. And if you do something well, you're really proud of yourself. And then you look around to see if anyone saw you."

He laughs. "If you make a hot move, you want a witness."

Like hanging ten?

"Well," he says, "to hang ten, you're talking about a really long board, probably nine feet. Hanging ten is when you're shooting across the wave and you actually walk to the front of the board and put ten toes over its nose.

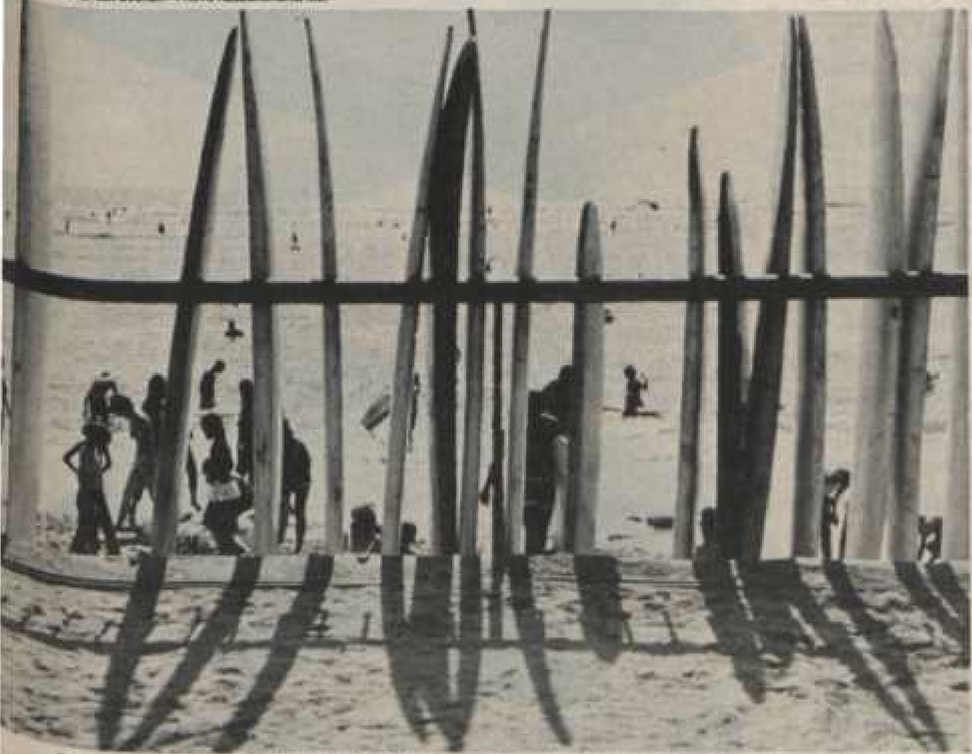
"To do that, the wave has to have a lot of speed and power. And the curl, the white water breaking behind you, has to hold down the back of the board.

"Otherwise, the front of your board will nose down into the water and head for the bottom. It will pearl-dive and pitch you into the boiling surf."

Did he ever hang ten?

"Yes," he says, "but never on purpose." □

PHOTO: VAN BUCHER—PHOTO RESEARCHERS, INC.



Reminiscent of sharks' teeth, these surfboards for rent in Honolulu reflect the revival of the sport, which flourished in the Hawaiian islands for centuries and has spread to both American coasts and the Gulf of Mexico.

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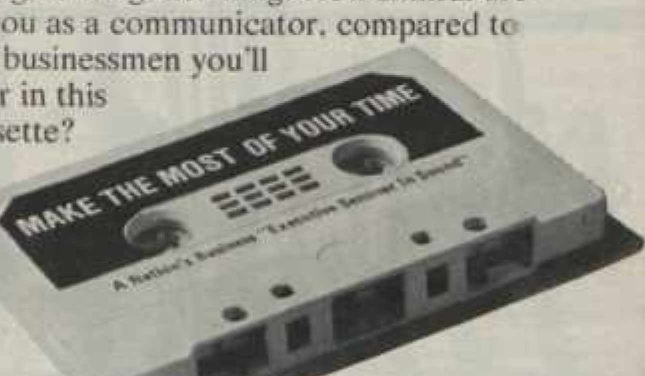

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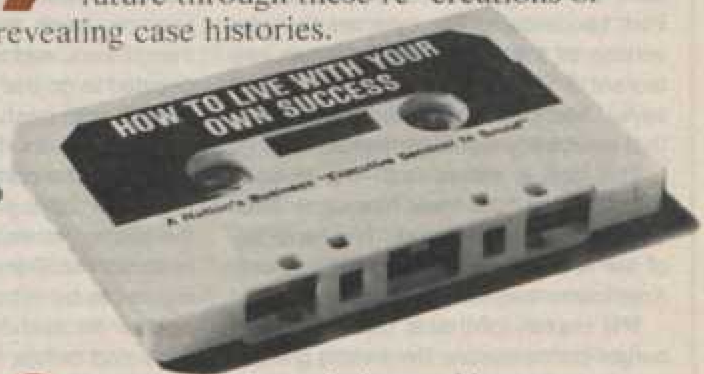

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PEOPLE IN BUSINESS

Not-So-Fast Food Gives Wuv's a Fresh Start

Jack Penrod is attacking the Big Mac and making a king-sized fortune. Mr. Penrod, who once owned 16 McDonald's hamburger outlets in and around Fort Lauderdale, Fla., started his own version of the ubiquitous American restaurant in 1975. "We called it Wuv's," he says, "because we wanted a silly name that everybody would remember."

The food is not so fast—it's all beef, etc., etc., but "the meat has never been frozen," says Mr. Penrod. "Nor have any of the foods we offer. And we use only American meat, nothing imported."

The reason for that is taste. For hamburger connoisseurs, the freshly ground, freshly fashioned patty, freshly cooked, is not even comparable to what flows from the warming bins of most burger joints. "Hamburgers that are not sold within a short time end up in our chili pot," says Mr. Penrod, whose restaurants offer onion rings, home-made biscuits, and chicken, also freshly fried.

Jack Penrod turned back the management reins at McDonald's to start up Wuv's.

Why would a flourishing McDonald's franchiser, who started out as an 85 cents an hour grillman and was promoted to assistant manager in three days and manager in three weeks, take leave of the Golden Arches?

"The answer is control," says Mr. Penrod. "McDonald's made its reputation on fresh hamburgers and fresh french fries, and when the management decided to go the frozen route, I decided to stick with fresh. McDonald's wants to do it all for its franchisers," says Mr. Penrod. "The company wants total control, from buying supplies to arranging the kitchen to training employees. I had been with McDonald's since 1961, and I wanted to be in business for myself."

After he sold his McDonald's operations and before he opened Wuv's, Mr. Penrod retired—for one day. "That was enough," he says. "I didn't have any money goals, but I wanted to build something.

"When I started Wuv's, I was somewhat naive, but I went through a very rapid self-training process at a cost of about a million dollars."

Expensive but effective. Today, Wuv's franchises are spreading up the East Coast from the Southeast. The formula of fresh food, wood and tile decor instead of plastic, and the ambience afforded by lots of plants, woven basket lamps, and carpeted floors has positioned the chain nicely in the upper-class hamburger market.

"While we have a children's hamburger," says Mr. Penrod, "we don't cater to children. In my lobbies at lunchtime, you will find more people dressed in suits. Wuv's is not really your typical fast food restaurant."

It is not typical in operation, either. While serving fresh foods requires more personnel, buying fresh is cheaper. For example, 100 pounds of potatoes from the fields cost eight cents a pound. If processed and frozen, potatoes run about 45 cents a pound. Says Mr. Penrod: "My profit margins are about double those of the typical fast food outlet."

Mr. Penrod, who was delivering newspapers in Columbus, Ohio, at the age of nine, is one of those dynamo types whose energy seems boundless: "You have to believe to achieve," he says. "I run my day in 15-minute segments. I know what I am going to do and when I am going to do it."

That kind of single-mindedness results in a demanding pace for Wuv's workers, from vice president to busboy. "Too many people spend their lives being led by other people," Mr. Penrod believes. "If you let people set their own priorities and direction, you will get at least a third more work out of them. And they'll be happier." As they say at Wuv's: "We start fresh every day."

The Typesetter Who Started With Bankruptcy

Cynthia Solis believes all work and no joy make typesetting a dull business.

"A lot of businesses are too strict—sometimes to their detriment. If the employee needs a day off, all he has to do is tell me; he doesn't have to pretend he's sick. And if his car breaks down, I'll lend him mine.

"I take my business seriously—to a point. Then I want to have fun. I've noticed a lot of people are surprised at my philosophy," says Ms. Solis, who at 27 is president of PicaType, Inc., Chicago, Ill.

Ms. Solis's career began when she found herself working for a bankrupt publishing company. Instead of seeking employment elsewhere, she simply bought the typesetting equipment on time and went into business for herself.

That was six years ago. She operated out of a storefront on Chicago's far northwest side. And for the first six months, she worked alone. "I didn't have any sales people then—and I still don't. I do all the selling myself."

In the early days she worked 16 to 18 hours a day, seven days a week. She did everything, from picking up a job and invoicing it, to keeping the books, sweeping the floors, and running the typesetter.

In the six years since her takeover, the business has gone from a $15,000-a-year company to sales of more than $250,000. Ms. Solis says simply that Pi-

Cynthia Solis bought out her bankrupt employer and rebuilt the business.

caType is successful because it offers reasonable prices, quality work, and prompt delivery. "Service is what counts," she says.

As for expansion, Ms. Solis would like to remain a one-shop woman. "Men often think in terms of opening new shops. I would rather expand what I have. I was born and raised in Chicago; I know the area and the people. That's important.

"I know I often have to prove myself because I am young and a woman in business," she adds, recalling a typesetting convention she attended with her boyfriend in California. "Everyone thought he was the company president and I was his wife."

A Firm That Manages Quite Nicely

Theodore M. Barry is a management consultant. So are three of his four brothers. But each has his own business.

"That's because each of us insists on being the boss in whatever he's doing," says Mr. Barry, whose Los Angeles-based firm, the T B & A Group, has annual billings of more than $20 million.

Initially, management consulting was to be the family business. But soon after Mr. Barry joined his older brother in his small firm, "it became apparent that one brother working for the other was not going to work."

Instead, Mr. Barry opened his own shop and started examining construction projects, one of the more difficult-to-manage industries. Consider the Alaskan pipeline, which was supposed to cost under $1 billion and ended up costing more than $8 billion. Along with inflation, the cause, says Mr. Barry, is the collapse of American productivity, a much-bandied-about word that simply means the amount of output workers produce, compared with how much they could produce.

Mr. Barry believes that loose management is to blame for decreasing productivity, not lazy workers. The cure, he says, is surveillance, a task not suited to engineers but aptly fitted to the consultant who can watchdog the entire project.

"Various studies we have done show that the work force on major construction projects is being used at only 30 to 45 percent capacity," says Mr. Barry. "That is, for every dollar in labor costs, management is getting about 40 cents value. A reasonable goal is 65 percent."

How do companies respond when informed of their inferior management? Is their reaction to kill the messenger who brings the bad news? "Not really," says Mr. Barry. "It used to be that firms wouldn't call in a consultant until the management system was going down for the third time. But today, managers take a more professional approach. They look upon consultants as temporary management, to solve a problem, take an unbiased look at a situation, or help with a one-time-only project. It makes economic sense. A company that wanted to build new offices wouldn't put an architect on the payroll."

But when the office grapevine spreads the news that the consultants are coming, staffers instinctively adopt a low profile and a busy-busy attitude. The rumors saturate the office: What department will be shut down, who will join the unemployed, what product will be dumped, what systems will be replaced? Any or all of that may happen on occasion, Mr. Barry agrees, but the fact is that a good consultant is not necessarily going to push for the best solution.

"What the consultant is looking for is the pragmatic solution, the one most likely to work, given the situation and the people involved," says Mr. Barry. "The consulting process is problem definition."

While providing management expertise to a variety of firms from automakers to utilities, Mr. Barry has management worries of his own. "Since we have expanded so rapidly in the past few months," he says, "I've found myself doing more management than consulting. We now have three companies to manage, with offices in Finland, Sweden, Denmark, Britain, Ireland, Holland, Belgium, Germany, Switzerland, France, Italy, and Spain, in addition to five U. S. cities. We're a big company now."

Maybe Mr. Barry should call in one of his brothers. □

Ted Barry added a European operation and now manages more than he consults.

Inflation: The Cure Is Not Immoral, Illegal, or Fattening

In discussing remedies for inflation, America is becoming a nation in which never is heard an encouraging word. It seems hard to find anyone with a credible theory offering more than "blood, sweat, toil, and tears."

There are such people, though. They are called supply-siders. Unfortunately, some of their advice is so pleasing that many people are evidently reluctant to believe it can work. That advice is: Cut taxes.

Who can blame the skeptics? For nearly 50 years, the Keynesians kept a majority convinced that the federal government could strengthen the economy by spending money it didn't have on social programs that weren't needed.

The country was actually living off its savings and credit during those years. Now both are exhausted, and the current generation faces overdue bills long hidden by budgetary sleight of hand and economic sophistry. People are understandably reluctant to accept good news that sounds suspiciously like the same old snake oil in a new bottle.

The supply-siders, however, have two important advantages over the Keynesians. Supply-side theory is easy to understand, and it is soundly based on the process that created our advanced standard of living.

The cause of inflation, say the supply-siders, is too much money chasing too few goods. That simple diagnosis suggests two likely remedies: Decrease the supply of money or increase the supply of goods and services.

Decreasing the supply of money is a time-tested and proven way to cure inflation. But it is also a long, painful process when the inflation rate is high; it stifles business activity, creates unemployment, and reduces the production of goods and services. It is something like trying to cure cancer with a very toxic drug—the medicine damages good cells as it destroys the bad.

On the other hand, if you attack inflation by creating new goods faster than new money, the whole society benefits. Unemployment diminishes, real income goes up, and government revenues rise on the same—or even lower—tax rates.

An increase in the volume and efficiency of production requires increased capital investment—money for newer, better products, machinery, and production techniques. The capital to invest must come from savings. Currently, neither business nor individuals are investing and saving enough because of the discouraging effects of high inflation and high taxes.

What are the specific elements of a good supply side-package? The Chamber of Commerce of the United States recommends a federal tax cut of $25 billion in fiscal 1980, consisting of business investment incentives in the 10-5-3 Capital Cost Recovery Act, an immediate cut in the corporate income tax, and a reduction of taxes on savings and investment income; a cut in federal spending to 21 percent of the gross national product for fiscal 1981 and 20 percent thereafter; a closer look at the need for regulations that decrease economic efficiency; further long-term tax reductions on labor and investment income; and continued restraint on the creation of new money.

That's good advice. It's all right to enjoy a tax cut that's not illegal, immoral, or fattening. □

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